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MODERN
ECONOMIC DEVELOPMENT
OF
GREAT POWERS
1914—1952

BY

S. K. SHETH

SECOND EDITION
ENTIRELY REWRITTEN & ENLARGED

PUBLISHERS
LA INTERNACIONAL
8 Khetwadi : 15, R. K. Bldg. No. 4
BOMBAY 4

SECOND REVISED EDITION
SEPTEMBER, 1953

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Printed by V. P. Bhagwat at Mouj Printing Bureau, Khatauwadi,
Bombay 4 : and published by S. K. Sheth for
La Internacional, Bombay 4.

PREFACE

We are exceedingly gratified at the encouraging response the first edition has had from the students and teachers alike. The opportunity has, however, been taken to re-write the book entirely, and make it as comprehensive and as exhaustive as possible. This improvement, we hope, will enhance its usefulness.

As is natural in writing a book of this kind, we have consulted all available literature on the subject, and specialized in the most authoritative authors on the respective country, only a few of whom have been listed in the 'Selected Bibliography', which appears at the beginning of every 'Part'. The great and irrepayable debt we owe these writers, we would here wish to express.

We are grateful to Principals and Professors from various Arts and Commerce colleges, together with Editors, for appreciating our efforts and making valuable suggestions: all these have been incorporated in the present volume. They were as welcome as all future suggestions will be.

September 12, 1953 **La Internacional**

VIEWS AND REVIEWS

'The period between 1914-1952, covering the two great world wars, was a very important period of economic reconstruction and development in the great countries of the world, consequent upon the devastation caused to their internal and external economy during the war period. The concept of the State, and the relation of the State to industry and management had radically altered. It was a period of intense large-scale and long-range planning all round. All countries, particularly war-affected countries, had to start almost from scratch to build up their economy. Problems of unemployment, currency stabilization, inflation, deflation, and labour relations faced each one of them, and each had its own method of approach. Mr. Sheth has taken up the history of economic development in the more important countries of the world—viz. America, England, Germany, Japan, and Russia—and dealt with it in a clear manner. The book will be found of value as a guide to an understanding of the major economic developments in each country, and as indicating the lines along which they are to be studied'.

'The Hindu', Madras

'The study of Economics is indispensable in modern times. There are various schools of thought even in Economics. Economics has taken new turns from Kautilya to Gandhiji and Kumarappa. This book touches the modern period—a period that will mould the current of events in the future. Great revolution in economic doctrines took place after the World War I. The conditions prevailing before 1914, the period of World War I from 1914 to 1918, the period of World War II from 1939 to 1945, the period of peace in between, and the postwar period of reconstruction—all these periods have left their landmarks on world economy. This book—covering all these periods and discussing the economic development of America, England, Germany, Japan, and Russia—will be a milestone in the economic development of our country, and towards moulding the public opinion in general'.

'Vande Mataram', Bombay

'The study is meant to be an objective presentation of facts. It contains a vast amount of information crammed into a little space, and will prove very useful as an aide-memoire to students and others interested in the subject'.

'The Hindustan Times', New Delhi

VIEWS AND REVIEWS

'The book is full of authoritative information on international economic trends, and deals exhaustively with the economic progress of America, England, Germany, Japan, and Russia right from 1914 to the present day. It will be a very valuable guide to the students of Economics in particular, and to those interested in the currents and cross-currents of Economics in relation to international politics in particular. The book throws much light on the postwar economic reconstruction'.

'Jai Hind' Rajkot

'Though written primarily for the students of commerce, the book will be equally useful to the students of Economics and Politics. The author has traced the economic development in all its branches in the important countries of the world—viz. America, England, Germany, Japan, and Russia from 1914 to the present day: and has compared and contrasted the relative economic institutions in these countries. The book will be of immense help to the B.A. and B.Com. students'.

'Gujarat Samachar', Ahmedabad

'The author takes his readers to all industrially advanced countries of the world, giving a running commentary of the growth and development of Economic Thought from an era of Laissez Faire to an era of Controlled Economy and Welfare State. It is a useful publication'.

'The Indian Exporter', Bombay

'It is indeed a book of great importance to the Economics students and those interested in knowing something more about International Economics, during the last thirty-eight years, in a nutshell. The author appears to have taken pains in putting only the concrete facts, avoiding all superficial readings or writings. The book fills the gap among the reference books so easy and concise to refer at a glance'.

'The Indian Export Trade Journal,' Baroda

'The book, specially written for the students of commerce, presents, in simple language, a comparative study of the economic progress of America, England, Germany, Japan, and Russia. The book is indispensable to those for whom it is meant'.

'Vyapar', Bombay

VIEWS AND REVIEWS

'I am convinced that it will be a very valuable publication giving an up-to-date account of the various countries. It will be useful to those interested in the economic progress of these countries. Businessmen, industrialists, government officers, and students of Economics will find this publication very useful in their study'.

Prin. Dr. A. B. Trivedi, B.J.College, Anand

'That the important facts relating to the economic development of great powers have been so thoroughly compressed by the author is very commendable. Students appearing for B.A. and B.Com. examinations will find in it a useful and handy material'.

Prin. B. M. Ramalingayya, J.G.College, Hubli

'The book will undoubtedly prove useful to our students of M. A. Economics classes, particularly at the time of taking the University examination. The book has been recommended to them, as well as to the students of B.A. classes. I shall also get this book recommended to the examinees by the Jammu and Kashmir University'.

Prof. P. N. Ganju, Gandhi Memorial College, Jammu

'It is indeed a laudable attempt to make an up-to-date survey of the economic developments in the important countries'.

Prof. G. Narayan, G.B.College, Tellicherry

'Practically every phase of economic development has been explained in a beautiful manner. The book is compact, all-embracing in content, clear in exposition, and concise in details'.

'The Indian Librarian', Jullunder City

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PART ONE

UNITED STATES OF AMERICA

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AGRICULTURAL POLICY

From the time of the Civil War to the end of the nineteenth century, American agriculture had undergone a marked expansion. The combined effects of the Federal land policy, the rapid growth of railway transportation, and the application of machine methods to farming had led to a vast increase in cultivated area and a rise in agricultural production, which brought about the distress periods in 1870's and 1890's, and made agriculture definitely dependent upon foreign markets. By the end of the century, however, a change was taking place. Within the country, new land ready for plough was nearly gone, and the growth of population, particularly in the cities, furnished an expanding market. Abroad, competition for world markets became stronger, and European countries gave greater protection to their own agriculture by means of trade restrictions. American agriculture became more stabilized and a more balanced relationship developed between agriculture, industry, and international trade. This balanced condition was particularly marked from 1909 to 1914, so much so that this period has been widely used as a base period for agricultural comparisons.

World War I

This period of balance in American agriculture was disrupted by the outbreak of World War I in August 1914. Soon a strong demand came from Europe for food supplies, clothing materials, and war materials. These demands became cumulatively greater year by year as the war progressed. When the United States too entered the war in April 1916, the patriotic appeal to supply food and other materials to help win the war became an added incentive. The expansion of agriculture which took place to meet these demands was rapid, yet could not keep pace with demand. Prices, therefore, mounted continually as a result of shortages and wartime inflation. Under the pressure of war demands and high prices, agricultural production was in high gear when hostilities ceased in November 1918. The signing of Armistice slowed down but little the demand for farm products. Time was required to demobilize the armies and to rehabilitate the agriculture of Europe, and meanwhile food supplies were exhausted. United States, therefore, by means of vast loans (aggregating a billion dollars) and other short-term credits, furnished the means for Europe to continue buying and maintain the foreign markets for her agricultural products.

Post-War Collapse

The price decline that set off the primary depression in 1920, came first and fell farthest in agricultural products. When credits were withdrawn, the foreign markets collapsed while the production equipment to supply retained its high cost of maintenance. Added acreage, mechanization, and improved methods created a surplus for which there was no outlet at remunerative prices. U.S. farm prices of wheat, for instance, fell from $ 2.58 a bushel in June 1920, to 93 cents at the end of 1921: corn from $ 1.86 in July 1920 to 62 cents a year later, and 40 cents in November 1921. Other products suffered similar decline. The recovery of business in the middle of 1920's, and the resulting industrial and financial boom, brought to agriculture an improvement that was limited and spotty. After the stock market crash of October 1929, agricultural prices again began to falter. During 1929-32, prices of farm crops in general suffered more than prices of livestock and livestock products; e.g. while prices of meat animals, and dairy and poultry products declined about 60%, grain and cotton—both subject to the combined influence of contraction in domestic and foreign demand—declined nearly 70%. Gross farm income, which had risen to $ 17,000 million in 1919, fell to the low of over $ 5,000 million in 1932.

In 1921 and again in 1922, Congress passed tariff acts which imposed duties on many agricultural products. But these actions were of little value in the face of domestic surpluses seeking a market. Beginning in 1923 and extending for several years, plans for legislative relief for agriculture were pressed vigorously by farm groups. The earlier measures aimed generally at the restoration of European markets by extension of credit or other means. The proposals to open foreign markets prevailed. Congress, in 1927 and again in 1928, passed the McNary-Haugen legislation, but each time the bill was vetoed by President Coolidge. Finally, in 1929, the Agricultural Marketing Act was passed. It was designed to promote and finance co-operative marketing and stabilize prices through the instrumentalities of Federal Farm Board.

The Federal Farm Board, which began its work in July 1929, was called upon to stem the downward trend in prices. Efforts were made to stabilize the markets for wheat and cotton—important export crops—by buying huge amounts and holding them off the market. This action served to check the fall of prices of these products temporarily, but the long period of declining prices forced later liquidation at still lower prices. The stabilization operations involved 900 million bushels of wheat and 1.3 million bales of cotton, and resulted in a loss of $ 360 million. Price control, thus, without ability to control production proved ineffective. A less spectacular but far more valuable contribution of the Federal Farm Board was the expansion and co-ordination of co-operative marketing on a national scale. The Board was abolished by the Roosevelt administration in 1933.

Agricultural Adjustment Act, 1933

From the dark days of the closing months of 1932 and the first two months of 1933, light began to break following the political landside which placed in power those who were pledged to efforts toward social control—including assistance to agriculture. The ten years of struggle for legislative assistance were rewarded in the passage of the Agricultural Adjustment Act, in May 1933. This act embodied three parts. The first part provided for control of agricultural production as a means of raising farm prices. The oganization set up to carry out this part was the Agricultural Adjustment Administration. The second part provided for credit facilities to relieve the debt crisis in agriculture. The organization set up for this purpose was the Farm Credit Administration. The third part contained a monetary provision under which the President was authorized to devaluate the currency. This part was not agricultural in character, although agriculture, in common with other industries, shared in whatever price improvement followed its use.

The new legislation had various objectives, but its basic aim was to raise the prices of farm products and bring the farmer into a position of 'parity' or equality with other American producers. A parity price was defined as one which would give the same purchasing power as that product had in the base period 1909-14. This object was to be accomplished primarily by the making of 'rental' or 'benefit payments' by the Secretary of Agriculture to farmers for reductions in acreages or reduction in production for market to a point sufficient to cause prices to rise to the intended level. To provide the revenue to make benefit payments, the Secretary of Agriculture was authorized to impose the levy upon 'processors' of commodities—i.e. cotton manufacturers, millers, meat packers, and others who prepared agricultural products, to which the act applied, for public use. The burden, of course, was to be passed along in the form of higher prices to consumers. During three years of the operation of the act, the farmers received about $ 1270 million in benefit payments for practising production control. The act named seven 'basic' commodities—cotton, wheat, tobacco, rice, dairy products, field corn, and hogs. Others were added in 1934 and 1935.

Along with production, the act dealt also with marketing. Here, too, the Secretary of Agriculture was endowed with new and extensive authority—i.e. to enter into marketing agreements with processers and others engaged in handling any agricultural commodity, (whether designated as basic or not), in the current of interstate or foreign commerce. Of even greater importance was the power conferred to issue or to refuse revocable licences (and to fix their terms), permitting processers and others to handle, in the current of interstate or foreign commerce, any agricultural commodity, or any competing commodity. The object, of course, was to enable the Secretary of Agriculture to prevent or eliminate unfair prices and practices. 35 marketing agreements with processers and handlers had been placed in effect by February 1, 1934, and 29 of these dealers were licensed.

Following the enactment of the law, the system went into operation. Within a year, 3 million farmers (representing nearly 1/2 the total of the nation) had signed production control agreements, withdrawing from surplus production a total of 40 million acres of grain, cotton, tobacco, and dairy land. The farmers' cash income, including benefit payments, had risen by 39%. The buying powers of farm commodities had improved by 20%. Full parity prices were never realized: by 1935, the average of farm prices was up 66%, and the farmers' outlook appeared brighter than for years.

Unfortunately, the results are difficult to allocate to the various causes involved in the recovery. First, the devaluation of Dollar acted as an inflationary influence to raise all prices. Second, the severe and widespread drought reduced crop production very materially, and the feed shortage resulted in a rapid and severe liquidation of livestock. Third, the general business situation improved both at home and abroad, and this improvement was reflected in agricultural conditions. Fourth, the easing of agricultural credit relieved the debt pressure, and enabled many farmers to farm more sanely. Fifth, the production control, marketing agreements, commodity loans, and other features of the act doubtless had a part also in the price improvement. It is, therefore, obvious that results cannot be allocated definitely in the midst of various causes.

Almost from the day of enactment, the constitutionality of the act was questioned, attacks centering chiefly upon processing taxes—the heart of the law. In Hoosac Mills decision, the Supreme Court pronounced the taxes unconstitutional, asserting that they were not taxes in the true sense (i.e., levies for the support of government), but rather exactions from one group of people to provide benefits for another group: a device, too, by which Congress had presumed to invade a field—i.e., agricultural production—reserved to the States under the Tenth Amendment, outside the sphere of the national government.

Surplus Commodities Corporation, 1933

In the depth of depression following 1929, the co-existence of large surpluses of farm products, and unemployed and hungry people fired the imagination and indignation of many an American. One concrete result was the creation, in 1933, of a corporation—subsequently known as the Federal Surplus Commodities Corporation. It was charged with the responsibility of removing surplus from the market by purchasing, and diverting them to needy families, to school lunches, to by-product uses, and to export. During World War II, this programme was merged with other agencies into the Agricultural Marketing Administration. While very considerably deflated during wartime, the programme continued of importance on the home front. It made possible the improvement of nutrition through distribution to needy families via relief agencies, and also by way of retail stores through the 'Food Stamp Plan'.

The stamp schemes, developed in 1939, involved the purchase of orange-coloured stamps by a public-aid recipient. Each orange stamp was worth face value (25 cents), in exchange for food in the grocery store. This stamp represented the normal food purchase necessary to sustain the family. With each purchase of orange stamps, blue stamps were issued free, usually at the ratio of two orange to one blue. Blue stamps might be used to buy surplus commodities only, as listed by Agricultural Marketing Administration. Food so obtained constituted a contribution by the government to the diet of the relief client, and served to relieve farm surpluses as well. A similar scheme was used to dispose of surplus cotton. A national school-lunch programme, authorized under 1946 legislation, also helps on two fronts: nutrition is improved and farm surpluses are reduced.

Soil Conservation Act, 1936

Believing that an indirect production control plan, if tied up in with the soil conservation measure, would meet the test of constitutionality, Congress, on February 28, 1936, passed a Soil Conservation and Domestic Allotment Act, erecting a new edifice of farm relief, but making production control incidental to soil conservation. As in the first legislation, restoration of the pre-World War I purchasing power of the farmer was the end sought. But the goal was now to be reached by a new route—soil conservation. Instead of bounties for curtailed production, benefit payments were to be made to farmers voluntarily co-operating with the government in the work of soil protection, especially by shifting land from soil-depleting crops—such as corn, cotton, tobacco, and wheat—to soil-building crops—such as alfafa and clover—with soil-building payments due also for planting specified acreages of legumes for turning cultivable land into pasturage. Soil conservation payments were not to exceed $500 million a year. The payments to farmers, though substantial, were less than under the Agricultural Adjustment Act of 1933.

The administration of this act also was placed in the hands of the Secretary of Agriculture. Under its provisions, 'goals' of desirable acreages of different soil-depleting crops, considered sufficient to provide adequate supplies but less than previous acreages, and also 'goals' of soil-conserving crops, were worked out for the nation and for the States, and were allocated to different farms by county and local committees. Farmers, who did not exceed the goals for soil-depleting crops and who attained the goals for soil-conserving crops and practices, have received benefit payments from Federal Treasury for their contribution to soil-conservation.

Popular reaction was more favourable to the idea of 'soil conservation' than to 'production control'. The act was highly ineffective, however, in securing control of production. A severe drought in 1936 effectively curtailed production, but, under a favourable season, production in 1937 broke existing records.

Commodity Exchange Act, 1936

Based upon the commerce power is the Commodity Exchange Act of 1936, which seeks to prevent and remove obstructions upon inter-state commerce arising from market manipulation and excessive speculation on exchanges dealing in agricultural commodities. After various administrative shifts, a Commodity Exchange Authority in the Department of Agriculture is now in charge of enforcement, with wide discretionary authority over exchanges, trading in wheat, oats, barley, rice, and other grains, cotton, potatoes, butter, eggs, fats, oils, and other commodities. The agency is empowered to impose limits upon 'futures' tradings and upon speculative trading done by any one person on exchanges, to curb excessive speculation and market manipulation, and, in general, to fix trading rules and fair trade practices.

Marketing Agreements Act, 1937

The marketing agreement provisions of the Agricultural Adjustment Act of 1933 were not, as a whole, declared invalid in the Hoosac Mills decision of 1936. Nevertheless, in 1937, a new Marketing Agreement Act was enacted, designed to strengthen the marketing agreement provisions of the original law. By it, marketing agreements are limited to 'designated' commodities—including fruits and vegetables—with designnated exceptions—milk and a few other products.

For any of these commodities, if the Secretary of Agriculture, after public hearing, concludes that such procedure will promote the purposes of the act, he may enter into a marketing agreement with handlers, or issue orders (of designated kinds and no others) designed to promote an approach to 'parity' prices. If orders are to be effective, however, the Secretary must determine, by means of a referendum vote, that their issuance is approved and favoured by 2/3 of the producers of the commodity, or the producers of the total volume within the marketing area specified in the marketing agreement.

For milk, but not for other products, the Secretary may, under the conditions stated, issue orders fixing minimum prices to producers. For other commodities, order may be issued limiting (as a whole, or by grades or quality) the quantity which may be shipped in interstate commerce, and establishing maximum quotas which may be handled by different dealers. Such orders, properly issued and approved, have the effect of law.

Agricultural Adjustment Act, 1938

As a result of increased output per man, mechanization, and changes in type and practices of livestock production, farm production capacity continued to exceed domestic and foreign demand. The drought years of 1934 and 1936 drastically cut production and indicated the need for reserves. The years 1937 and 1938 proved exceptionally good crop years, and the old vicious spiral of commodity surpluses and sharply declining prices set in again. Accordingly, in 1938, Congress passed a new Agricultural Adjustment Act. Scrupulously avoiding processing taxes and any other devices likely to encounter judicial disapproval, but nevertheless contemplating, like the first AAA of 1933, direct control of agricultural production, and without abandoning soil-conservation tie-up of 1936, the new law (still in operation) desired to achieve the desired control by supplementing arrangements stated as under.

The new policy now shifted to an emphasis upon bettered production and the provision for an 'ever normal granary'. In case farm yields were high, the surpluses could be stored under government loan. If surpluses became unmanageable, marketing quotas would be set up, if 2/3 of the producers of a product voted in favour of them. Payments were to be made from the Treasury. Measures were made effective for products under marketing controls. Crop loans made by the Commodity Credit Corporation were of the non-recourse type—i.e., the farmer could turn over the stored crop to the CCC, if the loan price exceeded the market price, in full payment of his loan: or he could pay off the loan and sell the crop if the market price was more favourable. This programme enabled farmers to increase their income from $ 568 million in 1938 to $ 653 million in 1947. Revamping the structure of the New Deal farm programme, and fully sustained as constitutional by a new reconstructed Supreme Court, the legislation of 1938 proved both effective and popular.

Crop Insurance Corporation, 1938

Crop insurance against loss has been started by the Federal government, beginning with the wheat crop of 1938 and the cotton crop of 1942. It was authorized by the Agricultural Adjustment Act of 1938, and covers all unavoidable hazards—such as hail, flood, drought, wind, disease, and insect damage. The farmer pays a premium computed from the loss history of the farm and other pertinent facts. In case of loss, he receives 50% to 75% of the average yield, payments being made in commodities and not in cash. The programme is carried out by the Federal Crop Insurance Corporation, a government agency which is grouped with the AAA agencies in the Department of Agriculture. Although curbed under the terms of the Agricultural Appropriation Act of 1944, crop insurance has since been restored and expanded to cover wheat, cotton, and flax.

World War II and After

But before the full programme could have adequate trial, agriculture, like other branches of national economy, was involved fully in a war that was global in extent and magnitude. World War II made demands upon the productive and distributive capacity of the American economy such as no nation hitherto had been called upon to fulfil. Even before the Pearl Harbour, the expanding need for American foodstuffs in the war-torn democracies, the assistance provided under 'Lend Lease' legislation, and the growth of consumer demand in U.S.A. itself growing from defense effort, impelled the Department of Agriculture to announce a farm programme, calling for the largest production in the history of American agriculture. For a time after the war too, the situation persisted, bolstered by the gigantic relief programmes for devastated Europe and Asia. The emphasis from 1941 to 1948, therefore, was on expansion, not contraction, of supplies.

Just before Pearl Harbour, as an outgrowth of the government's attempts to expand production, two significant pieces of legislation were passed. The first was the Bankhead Bill which provided that CCC loans on the 'basic' commodities have to be at 90% of parity, except for cotton where the minimum limit is 92.5%. In effect, this assured the growers of these crops 90% of parity, because of the non-recourse character of CCC loans. More important was the Steagall amendment to the law establishing the CCC, which provided that during the war and two years after the termination of hostilities, the price of any crop, the production of which the Secretary of Agriculture officially proclaimed should be expanded in the interest of the war effort, had to be supported at least 90% of parity. This was to be in addition to the price support programme for the 'basic' crops. The means of support were left to the U.S. Department of Agriculture, which could use loans, purchase, disposal, or export programmes. The principal Steagall commodities are—hogs, milk, butterfat, potatoes, eggs, and poultry. Because of the very high domestic and foreign demand that prevailed through 1948, the only major crops that had to be supported were potatoes on which there have been loans, purchase and disposal operations, and export subsidies: and eggs which have been purchased, processed, and exported.

Increases in production were made in all phases of agriculture—except cotton and sugar, which declined. By 1946, production of poultry, eggs, wheat, fruits, and vegetable crops exceeded prewar by 40%. In addition, 'victory garden programme' was inaugurated and expanded until 18½ million families were participating. This project added materially to the food supply and lessened the pressure on rationed articles. With a combination of record high production and relatively high prices, the net income for farm producers jumped from $ 5.3 billion in 1939 to $ 13.6 billion in 1944. This, with the moderate increase in marketing costs, probably gave the farmer a larger proportion of the consumer's Dollars than he had ever received. The aid rendered by the Farm Security and Credit Administrations, along with high prices, enabled such a large number of tenants to rise to the status of ownership during the war that the percentage of tenancy fell to the lowest point in a generation.

The termination of World War II served only to redirect the trend of farm production. Lend Lease was terminated, but foreign demands for food were maintained through the requirements of the United Nations Relief and Rehabilitation Administration (UNRRA), and of the military governments in occupied countries. Widespread disruption of war and unfavourable crop conditions in Europe, in 1947, prolonged the dependence of many countries upon the U.S. for food supplies. In April 1948, the European Recovery Programme was launched. It affected American agriculture directly by demands for food, and indirectly by demands for industrial products, which helped maintain domestic purchasing power.

Agriculture Act, 1948

As more normal conditions returned after the World War II, difficulties and problems re-appeared, and the years 1948-50 became a new period for active discussion in Congress and outside. As matters stood, the American farmer was benefiting from soil conservation payments : and especially from a price support programme—rooted in the AAA of 1938, though in its form dating from 1941—under which the government (operating through CCC), in effect, guaranteed, for nearly a dozen staple commodities, prices amounting to 90% (in case of cotton 92.5%) of parity, and for several lesser ones from 60% to 90%. High prices of agricultural products, however, were manifestly helping to keep up the cost of living, and in many quarters sentiment developed for scaling down price support programme sufficiently to give the consumer some relief, while still not leaving the farmer without reasonable protection.

In 1948, a Republican Congress passed a new Agriculture Act (Hope-Aiken Flexible Parity Law), under which:

1. Flexible price supports at 60% to 90% of parity were provided for the basic products—i.e. wheat, cotton, tobacco, corn, rice, and peanuts.

2. Prices of 'non-basic' commodities could be supported at any level upto 90% of the parity, as determined by the Secretary of Agriculture.

3. Method of figuring was changed. The old relationship, as of 1909-14, was retained for the relative price position of farm products sold and products bought by farmers. For each supported product, an 'adjusted' price base, equal to the average price for the preceding 10 years, was substituted for the old 1909-14 base.

4. Marketing quotas could be used in case of large supplies: or a continued low price for a consecutive 3-month period.

The provision for an adjustment between supply and the rate of support was intended to make an automatic correction for large or small supplies. The recent and flexible parity base was an improvement over the previous rigid one. Its provisions, as compared with previous acts, were definitely more in the direction of public interest and less in that of class legislation. The act was supported by all the major farm organizations, yet it was strongly opposed by many farmers who, having experienced high supports, were reluctant to accept lower guarantees. Before the act came into operation, it was replaced by Agriculture Act of 1949.

Agriculture Act, 1949

The Agriculture Act of 1949, which came in force from January 1, 1950, contains the following provisions:

1. For four years, from 1950 to 1953, the 'basic' commodities are to have the higher parity, as calculated under the old and the new formulas, after which the flexible support provisions are to be restored.

2. The new parity formula applies to all 'non-basic' products that are supported.

3. The price of dairy products is supported within the range of 75% to 90% of parity, as determined by the Secretary

of Agriculture.

4. The price of wool (including mohair) is supported within the range of 75% to 90% of parity, as determined by the Secretary of Agriculture.

5. Mandatory supports are provided for Irish potatoes, tug nuts, and honey, within the range of 60% to 90% of parity, as determined by the Secretary of Agriculture.

6. For any other 'non-basic' commodity, the Secretary of Agriculture is given discretionary authority to provide supports at levels not to exceed 90% of the parity.

The general effect is a high support level. Of the basic crops, the old parity formula gives the higher supports for wheat, corn, cotton, peanuts, while the new formula favours rice and tobacco. For non-basic commodities, the new parity formula provides higher supports than the old. For the few products, for which the new parity is lower than the old, the reduction is graduated downward—95% of old parity in 1950, 90% in 1951, 85% in 1952, and so on to the lower level. The provisions for controls through acreage allotments and marketing quotas are retained.

In the midst of the stimulated prosperity of the 1940's, the average farmer was haunted by the all too vivid memories of the market collapse of the 1920's. Such memories led to a certain prudential restraint in extending operations and in contracting indebtedness. The most pronounced reaction to the feeling of insecurity was the insistent demand of farm organizations for a permanent policy of price support. The main concession during the war was in the guarantee of supports upto 90% of the parity for two years following the war. As it proved in the case of most commodities, the support was not needed in the early years of peace. Continued high industrial employment, an assured large export under the Marshall Plan, and benefit payments, along with inflated values after the removal of controls, brought, in 1947, the highest farm income on record, with prices at 120% of the parity. Relative returns were later reduced by concessions to labour and the consequent rise in costs of equipment, and in the charge of utilities. Near the end of the decade, the index remained well above the parity level.

AGRICULTURAL CREDIT

Agriculture is America's basic industry, producing the foods and raw materials upon which the population and manufacturers largely depend. When, in earlier days of more diversified agriculture, a farmer wanted to acquire additional land or make improvements, he normally must turn for funds to a regular commercial bank. Private capital is still available for farm financing in most sections of the country, but where the risk is great, the interest charges tend to be high. A small town bank, with heavy investments in farm mortgages, may be wiped out by a series of bad crop years. After crop failures, farmers who owe the bank lose their money through foreclosures. Under these conditions, it is not surprising that pressure should have been exerted upon the government to assume responsibilities for farm financing.

Moreover, in recent decades, a steadily increasing proportion of agriculture has ceased to be diversified and become specialized. Cotton farmers there always were, but now, in addition, there are wheat farmers, cotton and hog farmers, dairy farmers, fruit farmers, ranchers, and what not. While some of these, especially dairy farmers may have proceeds coming in more or less all the time, it is characteristic of most of them to have little income, except at one or two periods of the year when cash crops or herds are ready for marketing. To normal farmer, needs for credit on favourable terms are, therefore, added special demands arising from this newer situation.

The result has been the building up, over the last 35 years, of a country-wide system of credit institutions—a network of banks and other agencies authorized, supported, and regulated by the Federal government, and operated exclusively for service to the farmer. In May 1933, the Farm Credit Administration (FCA) was created to supervise and co-ordinate the government-sponsored or operated credit agencies, which were dealing in adequately secured credit. Two of these agencies—the Federal Land Banks and the Federal Intermediate Credit Banks—had been in existence for 16 and 12 years respectively. The Banks for Co-operatives and Production Credit System were created at the time when FCA was established.

From 1933 to 1939, the agency was independent of departmental control, and the Governor of the FCA was responsible to President directly. In 1939, President Roosevelt transferred it to the Department of Agriculture. In furnishing credit, these four principal sub-divisions of the FCA operate as follows.

1. Federal Land Banks

Federal Farm Loan Act of 1916 was the first piece of Federal farm credit legislation in American history. The country was divided into 12 Land Bank districts, and in a leading city of each of these 12 Land Bank districts was established a Federal Land Bank. A Federal Farm Board was set up in the Treasury Department as manager. (This Board was abolished in 1933 by Roosevelt administration). To broaden the service, the same act also authorized the formation of joint stock Land Banks, with capital stock subscribed by private individuals, enjoying about the same privileges, and performing the same functions as the Federal Land Banks.

Capital: Each of the 12 Federal Land Banks was originally capitalized at $ 750,000, a total of $ 9,000,000 for the entire system, practically all of which was paid in by the Federal government. It was provided, however, that the funds to be lent were to be obtained primarily from the sale of bonds: and that remains the method used.

Loan Funds: These Land Banks lend money, however, not directly to individual farmers. To obtain loans under the law, farmers originally were, and still are, always required to become members of local Farm Loan Associations. Each such association must consist of not less than 10 or more farmers applying for an aggregate of $ 20,000 or more in loans.

Loan Limits: Loans may not be made by the Federal Land Banks for an amount in excess of 50% of the appraised value of the farm land, plus 20% of the value of the insurable improvement thereon. Under the original act of 1916, no loan could be for more than $ 10,000, but the maximum was raised by Congress, in 1923, to $ 25,000, and, in 1933, to $ 50,000, with the proviso that each loan in excess of $ 25,000 must have the specific approval of the Land Bank Commissioner.

Security: Each borrower must give a first class mortgage to the local association for his loan. The local association must endorse his loan, and send it to the district Land Bank. The borrower must subscribe for stock in the local association to an amount equal to 5% of his loan, and the association, in turn, must subscribe for stock in the district Land Bank to an amount equal 5% of the loan granted. This procedure causes each farmer to be responsible for the loans made to other members of his local association to the extent of 5% of his loan.

Interest Rates: The maximum interest rates charged farmers on Federal Land Bank loans may not exceed 6%. It also provides that the farmer may not be charged at a rate more than 1% higher than the rate at which the last Land Bank bond issue was sold, except with the approval of the Governor of the FCA. At the end of 1947, the rate on Land Bank mortgages was 4%.

Amortization: Loans may be made on an amortization plan of repayment, and run not less than 5 nor more than 40 years. (Amortization means repayment of debt in instalments spread throughout a period of years).

Federal Farm Mortgage Corporation: Because of the inability of the Federal Land Banks to sell their bonds advantageously at the time, there was set up, in 1934, by an act of Congress, the Federal Farm Mortgage Corporation. It was capitalized at $ 200 million, the funds being supplied by the Reconstruction Finance Corporation. It was authorized to issue bonds upto a maximum of $ 2 billion. These bonds were guaranteed, absolutely as to principal and interest, by the Federal government, whereas the regular Federal Land Bank bonds are not. During several years, it furnished funds to the Federal Land Banks by selling its own bonds and buying those of the Federal Land Banks, or by exchanging its bonds directly for those of the Federal Land Banks.

Land Bank Commission Loans: From 1933 to 1947, another type of long-term loan—the Land Bank Commission loan—was available to supplement the regular Land Bank loan program. These loans were available primarily for certain re-financing operations. The money came from the Federal Farm Mortgage Corporation. Loans were granted upto 75% of the appraised value of farm property offered as security, but the amount was not to exceed $ 7500. These loans were secured by either first or second mortgages. The interest rate was set at 5%, but Congress reduced it to 3.5% for 1940-44. With the return of normal, better than normal, conditions after the World War II, the need for Commission loans, which were of an emergency nature, declined; and the FCA's power to make such loans expired on June 30, 1947.

National Farm Loan Associations: There were as many as 4,000 of these local associations in existence in the early 1930's. As a result of the collapse of land values during the depression, the capital of many of them became impaired. In order to strengthen the system, the FCA, in 1943, undertook a policy of getting the associations to consolidate, so that the number was reduced to 1,280. The FCA is also turning the management of loans and records over to the associations as part of its general policy of building up the co-operative features of these farmers' associations. They are now all solvent and building up reserves. Because some other agencies limit their lending territory, these associations are the most important lenders in areas of lower land values or of higher risks.

2. Federal Intermediate Credit Banks

Seven years after the passage of the Federal Farm Loan Act in 1916, Congress enacted the Agricultural Credit Act of 1923, the most important provisions of which were those establishing the Federal Intermediate Credit Banks. These banks, 12 in number, were established in connection with the Federal Land Banks, and in the same locations. They were placed under separate managers, but under the same Board of Directors.

Capital: The capital of these banks is, and always has been, supplied by the Federal government. The authorized capital of each of the bank was originally put at $ 5 million, only part of which was paid in. But, during the reorganization of the Federal agricultural credit agencies in 1933 and 1934, this was increased. In 1947, the 12 banks together had a paid-in capital of $ 60 million, and earned a surplus of slightly less than $ 24 million. Considerably over ½ of this net worth was invested in government bonds.

Loan Funds: Funds to be lent consists, in part, of the paid-up capital: and, in addition, are provided by the sale of debentures. Such debentures are short-term notes, which are secured by chattel mortgages, warehouse receipts, shipping documents, and the like. This collateral is furnished originally by the borrowers from the financing institutions which rediscount with the Federal Intermediate Credit Banks. The debentures usually run for from 3 months to 1 year. Like the bonds of the Federal Land Banks, these debentures and income from them are tax-exempt.

Interest and Discount Rates: Interest and discount rates of Federal Intermediate Credit Banks may not, except with the approval of the Governor of the FCA, exceed by more than 1% per year the rate borne by the last preceding issue of debenture issued by them.

Kinds of Credit: The Federal Intermediate Credit banks, at no time have made loans to individual farmers. Originally, they made loans to, and discounted papers offered by, co-operative marketing associations, for the most part, secured by warehouse receipts, shipping documents, and chattel mortgages. They also discounted, as they still do, the notes, drafts, etc. offered by a variety of other financing agencies, if the proceeds of such paper were used, in the first instance, for agricultural production or marketing purposes, or for the raising, breeding, fattening, or marketing livestock. Since the establishment of the Banks for Co-operatives, the Intermediate Credit Banks have practically discontinued supplying loans or discounts directly to co-operative marketing associations. Instead, they serve these indirectly through the Banks for Co-operatives. No loans or discounts may be for a longer period than 3 years. Most of them are for much shorter periods.

3. Banks for Co-operatives

Special provision has been made for financing farmers' co-operatives. Since 1933, co-operative credit needs have been served by the Central Bank for Co-operatives at Washington, and 12 district Banks for Co-operatives, one in each of the 12 farm credit districts. Farmers' co-operatives are organized for marketing of products, purchasing agricultural supplies, and for other purposes. Loans by these banks are of three general types:

1. Commodity Loans, for which the interest rate is only

1.5%, are used to finance the handling or processing of farm products. These short-term loans are secured by first liens on farm products or supplies, approved as collateral by the Co-operative Bank Commissioner.

2. Operating Capital Loans, at 2.5% interest, provide funds to supplement the borrower's working capital during peak activities. Though the law does not require specific collateral for such loans, liens on real estate, equipment, and inventories generally are taken.

3. Facility Loans, bearing 3.5% interest, are made to finance or re-finance the acquisition, by purchase or lease, of land, building, and equipment needed for the co-operatives. All such loans are secured by liens on physical properties, and may not be made for more than 60% of the value of the collateral. Such loans, according to law, must be repaid in 20 years: but usually the schedule of repayment covers a period of less than 10 years.

In 1947, the total paid-in capital supplied by the government to these banks was $ 178.5 million. In addition, borrowers must subscribe to the capital of the banks to the extent of 5% of the Operating Capital and Facility Loans granted to them, and 1% of the amount of Commodity Loans. This furnishes but a very small part of the capital of the banks.

4. Production Credit System

In the belief that the direct loan is a hazardous and demoralizing form of credit, and that the control of credit conditions ought to be, so far as possible, in the farmers' own hands, a special provision has been made in the Farm Credit Act of 1933 for giving encouragement to the farm co-operative method of borrowing. The new institutions created to care for such co-operative credit for production purposes are the Production Credit Corporations and the Production Credit Associations.

Production Credit Corporations: In each Federal farm credit district, the act established a Production Credit Corporation to provide short-term credit for all types of ranch operations. All the capital stock of these corporations was subscribed by the U.S. The total paid-in stock in 12 corporations, in 1947, was $ 93 million. These corporations are authorized to subscribe for non-voting preferred (class A) stock in local Production Credit Associations to an amount equal to approximately 20% of the loans made, or to be made, by each such association, as estimated by the corporation.

Production Credit Associations: In order to finance the operations of producing, harvesting, and marketing of crops, farmers need loans for short periods. Credit is obtained for buying seed, feed, machinery, fertilizer, livestock, and the hiring of labour. These loans are available from one of 503 (June 30, 1947) local Production Credit Associations, which, like the local Farm Loan Associations, are co-operative organizations of farmers. The local association obtains the money it lends largely from the Federal Intermediate Credit Banks of the farm loan district, and from the regional Production Credit Corporations. Production Credit Associations must consist of 10 or more farmers desiring to borrow from the association. The borrowers must each subscribe to common (class B) stock in the association in an amount equal to 5% of their borrowings. The rate of interest is 4.5%. Loans must mature within one year, and may not be extended beyond two additional years.

The policy of the FCA has been to leave more and more responsibility in the hands of the associations and to encourage their members to buy up the stock in the local associations, originally held by the Production Credit Corporations, so that farmers will ultimately be sole owners of their local credit co-operatives.

5. Commodity Credit Corporation

The Commodity Credit Corporation was brought into existence by executive order of 1933, with power to buy, hoard, sell, lend upon, or otherwise deal in, such agricultural commodities as might be designated, from time to time, by the President. The CCC, among other things, is the price support agency of the Department of Agriculture, and extends loans on basic crops which are 'mandatory' under the Agricultural Adjustment Act, and on 'proclaimed' crops whose price support is mandatory under the Steagall Act.

The CCC loans are non-recourse—i.e. the farmer may sell the mortgaged commodity and pay off the loan plus 3% interest if the price goes above the loan rate. If the borrower cannot sell the commodity at a high enough price to repay the loan, the collateral becomes the property of the lender, but the lender cannot claim the repayment of the full loan from the borrower.

In the mid 1930's and early 1940's, the CCC made or guaranteed immense loans on cotton, corn, and wheat. Thus, on January 1, 1943, it had about $ 772 million loaned, or owned great stocks of commodity in addition. From 1944 to 1948, the activities of the CCC were minor, because the prices were high enough without any assistance from that agency. In 1947, its price support loans totalled $ 278 million—lent on tobacco, potatoes, peanuts, corn, wheat, and cotton. But the years 1948 and 1949 saw agricultural price declines, and large volumes of products were put under seal with this kind of loan.

The CCC loan, in effect, is an offer from the government to buy a commodity at a stated price, regardless of what the market price may be. Therefore, the producer always gets the support-price at least.

Summary

The outcome of the somewhat complicated series of measures reviewed is a gigantic credit structure with the following present principal features:

1. A Federal Land Bank in a principal city of each of 12 farm credit districts, such bank making mortgage-secured 4% loans to individual members for purchasing land, equipment, or livestock, improving land, constructing buildings, or liquidating debt.
2. A Federal Intermediate Credit Bank in each district, making loans to Production Credit Associations, Banks for Co-operatives, and similar financing institutions.
3. A Production Credit Corporation in each district serving the farmer who wants, not long-term credit, but loans for a few months or a year; and secured, not on land, but on livestock, corn, wheat, or other commodities.
4. A Bank for Co-operatives in each district, providing a permanent source of credit on a sound business basis for the multiplying farmers' co-operative associations.

In all cases, capital was supplied originally by the Federal government. Borrowers, however, were required to purchase stocks with a view to the banks eventually passing completely under co-operative ownership. As a result of wartime and postwar agricultural prosperity, most of the government's capital was retired by 1948. That extremely useful purposes are served is indicated by the fact that in 1948, the total of credit made available was no less than $ 1.7 billion. The system has established a reputation also for adherence to sound and even conservative business methods.

ECONOMY BEFORE NEW DEAL

In any account of the economic condition of the world between two world wars, the U.S.A. must occupy the central position. In view of the position of the U.S.A. as the leading creditor country, as one of the greatest import markets, and as one of the most important producers and exporters of many agricultural products and raw materials, her economic condition and policy had a more direct effect on the world economic conditions than those of any other country. The U.S.A. is of further interest because from 1933 onwards, the American government under President Roosevelt pursued the most significant experiment in raising a large capitalist economy out of the depths of economic depression.

In 1920-21, the U.S.A. passed through a short postwar slump, which was the more severe because it had been postponed for two years by a remarkable flow of exports to Europe, and by large government expenditure. In 1922, the U.S.A. entered on a seven years' period of rapid economic progress and unprecedented prosperity. Industrial productivity increased by 43% between 1919-29. The value of foreign trade rose by 28% between 1922-29. The national income, expressed in 1929 Dollars, rose from $ 68.5 milliard in 1922 to 93.6 milliard in 1929—a rise of nearly 40% over the short period of seven years; and U.S.A. was investing abroad large surplus of its national product.

This period of economic advance came to an abrupt end in 1929. In July of that year, the volume of industrial production began to decline. The stock market crash in October accelerated the cumulative downward trend of economic activity, which continued unchecked until the summer of 1932: and, after a brief slow ascent, was pushed still further by the banking and financial crises of the spring of that year. During these four years, wholesale prices fell by almost 1/3, industrial production contracted by more than 1/2, and the value of U.S. merchandise trade decreased by more than 2/3. In 1932, net investment was negative to the extent of $ 5,800 million. For five years, America lived on her capital. Worst of all, the number of unemployed workers was estimated at over 14 million.

In this background, let us now examine the outstanding features of boom and depression in the U.S.A. between 1920's and 1932.

Growth of Investments

The main facts underlying the astonishing boom of the 1920's had been remarkable in industrial technique, which coincided with a pronounced building boom. Between 1919-29, production per wage-earner in manufacturing industries had increased by no less than 40%. The progress had been particularly rapid in a number of new industries, of which the motor car industry was the most obvious example. The tendency towards a rapid growth of investment was underlined by a residential building boom, which began soon after the war, reached its peak in 1925 with $ 5,000 million, and then declined gradually—though the decline was offset, until 1928, by an increase in public construction expenditure.

The result was an even more marked divergence, than in any other trade cycles, in the rate of growth of production between capital and consumption goods on the one hand, and non-durable consumption goods on the other. While the output of the former increased at a rate of 6.4% and 5.9% a year respectively, the latter increased at a rate of only 2.8% per year. Thus, it is fairly clear that the usual check to investment, resulting from a decline in the rate of growth of consumption was accentuated, in this case, by the simultaneous decline in the building boom, and the fact that investment opportunities in some of the new industries had passed their peak.

There were other internal factors which contributed to the severity of decline. The stock exchange crash undoubtedly accentuated the decline. The slump in security values, which followed it and which was in turn hastened by the unsound investment policy of the American banks, led to an ever increasing pressure upon debtors of every kind. The resulting scramble for liquidity produced the banking crisis of 1933.

Agricultural Depression

American agriculture had profited enormously by war. With a constant demand for fost at rising prices, production was greatly expanded at the price of an immense increase in the indebtedness of the American farmer. The debt burden, which had been easy enough to bear during the period of artificial prosperity, became a milestone round the neck of American agriculture after the war, when the American farmers found themselves faced with powerful competitors in the world market, and a tendency towards falling prices. Throughout the 1920's, American agriculture remained depressed, and farmers failed to share in the raise of national income.

Instead of adapting itself to the changed situation by contracting production, agriculture received further financial assistance from banks and from government, thereby increasing its debt burden by a further 20% between 1920-29. Until 1928, agricultural prices were maintained. Large harvest of that year initiated a fall in prices, which assumed disastrous proportions with the onset of the industrial depression, a rapidly contracting demand facing a rigid and actually increasing supply, and accumulated stocks which were now released. The result was the virtual bankruptcy not only of the farmers, but also of a large proportion of the rural banks, which were involved in the failure of their debtors.

Government Policy

The government policy, if it did not actually contribute to the economic disaster, did little to stem the tide. Throughout the 1920's, the U.S.A. was governed by Republican administrations, whose policy was dictated by the principle of Laissez Faire. The only important step taken before 1931 was the passage of Hawley-Smoot Tariff in 1930, which considerably increased tariffs on imports. Though it may have steadied conditions in some industries, its effects on the American economy, counteracted as they were by reprisals the world over, were probably negligible.

During 1931-32, the Federal government did, indeed, decide to pursue an active policy of reflation by means of public works and financial assistance to agriculture. Consequently, the Federal surplus of $ 746 million for fiscal year 1930 was replaced by a deficit of $ 2865 million in 1932. Unfortunately, this was more than counterbalanced by a big contraction in the public works expenditure of cities, counties, and states.

In 1932, the Reconstruction Finance Corporation was organized to aid in financing agriculture, banking, commerce, industry, and trade. In the first year of its operations, it lent $ 1000 million to various institutions—mainly banks, trust companies, and railways. In June 1932, security values began to advance and there was a small revival of business. But this important change in American government policy came too late to prevent the disaster, and was on an entirely inadequate scale to produce a real economic revival.

International Position

It must be emphasized that the initial causes of the American depression, in contrast to most other countries, were entirely internal. Throughout the 1920's, continuous capital exports on a vast scale enabled the U.S.A. to maintain a large export surplus. This export surplus was maintained even throughout the depression, partly because the failure of long-term foreign lending after 1930 was offset by large withdrawals of foreign short-term balances. The decline in the U.S. trade by 2/3, during 1929-32, increased the difficulties of American agriculture. But it was not a major factor in the American depression. As a net creditor to the world, in 1929, by about $ 21,000 million, as the owner of gold reserves which in 1929 amounted to 28% of the world stock of gold, and with a continuously favourable balance of payments, the U.S.A. was relatively immune from the effects of international monetary disturbances.

But if the U.S.A. was practically unaffected by outside influences, the American depression had a profound effect on the world economic conditions. The contraction of American demand and the fall of American price levels (especially of agricultural products), led the way to the decline of world prices and the rapid contraction of international trade. With the American crisis and depression, the unstable equilibrium of the international balance of payments, which had been maintained during the 1920's, largely by American capital exports, completely collapsed. Already, the stock exchange boom of 1929, by attracting funds to New York, had exerted some pressure on the exchange position of the European debtor countries. During 1930, the scramble for liquidity in the U.S.A. led to even large recalls of short-term funds from Europe. At the same time, the flow of long-term capital exports declined greatly in 1932. From the moment that the U.S.A. ceased to export capital, the tariff wall, which surrounded her and which was heightened by the Hawley-Smoot Act of 1930, showed its full effect as an obstacle to the adjustment of balances of payments of the debtor countries.

The worst hit were the overseas primary producing countries, which were brought to the verge of bankruptcy by the fall in agricultural and commodity prices: and the European debtor states, whose economic prosperity had been built on continued foreign borrowing. Pressure on its gold and foreign exchange reserves forced one country after another to protect its currency by exchange depreciation or exchange control. At the same time, the efforts of every country to maintain its exports and protect its balance of payments, by imposing increasing tariffs and other import restrictions, still further diminished the flow of international trade and increased the difficulties of every other country.

Thus, the American slump and depression cannot be said to have caused the world depression, but it upset the unstable equilibrium, and gave impetus to a similar economic decline in other countries.

NEW DEAL RECOVERY POLICY

When, on March 4, 1933, the first Roosevelt administration came into office, the country was suffering from the most extreme prostration, which any capitalist economy had ever experienced in peace time. From 1929 through 1932, the wholesale prices fell by almost 1/3, industrial production contracted by more than 1/2, and the value of U.S. merchandise trade decreased by more than 2/3. Worst of all, the number of unemployed workers was estimated at over 14 million. Consequently, business and financial firms, many of them of gigantic size, were on the verge of bankruptcy. Thousands of families were threatened with the loss of their homes through foreclosures.

Economic recovery was, therefore, the main object of Roosevelt administration. It also undertook a major programme of abolishing injustices, such as those which had surrounded some security issues, or which were involved in at least some employer-employee relations. Both as a means of preventing future depressions, and in order to bring greater economic justice, income distribution was to be made more equal. The two categories have been described by the titles—'Relief and Recovery' and 'Reform and Reconstruction'. The Roosevelt policies contained in these laws have come to be known as the New Deal.

Among the first measures of the New Deal, involving government expenditure on a very large scale, were two which combined the object of increasing consumers' purchasing power with the more immediate task of liquidating the frozen assets of the country's banks and other credit institutions.

1. Farm Credit Administration: Part II of the Agricultural Adjustment Act of 1933 established the Farm Credit Administration, to which farmers could apply for loans, with which to pay off their existing mortgages. Its object was to refinance farm mortgages at lower rates of interest. The Act succeeded in reducing interest rates, paid by farmers, from over 5% to 3½%,and this reduced their indebtedness by more than 1/4. By September 1937, government credit agencies held 37% of the farm mortgage debt of the country.

2. Home Owners' Loan Corporation: In June 1933, Home Owners' Loan Corporation was set up, which gradually bought up 1/6 of the urban mortgages from the banks, trust companies, and building societies, which held them, and arranged for new mortgages at lower rates of interest and for longer terms with the houseowners. Upto June 1936, when its powers expired, the Corporation lent just over $ 3000 million.

3. Federal Emergency Relief Act: The main relief programme of the New Deal was inaugurated by the passage of the Federal Emergency Relief Act of May 1933, which, for the first time, authorized the Federal government to make

direct grants to the States and other local authorities, of the money to be paid out to the unemployed. The Act appropriated $ 500 million, to which further sums were added at intervals by subsequent legislation. The Act set up the Federal Emergency Relief Administration, which, until 1936, remained responsible for the administration of relief both to the unemployed and to farmers: and which, during this period, distributed altogether $ 4000. Besides this main relief agency, other bodies distributed money for relief purposes.

4. Civil Works Administration: The Civil Works Administration, set up in 1933, though intended as emergency relief substitute for the public works programme, which was slow in getting underway, was in fact more concerned with providing immediate relief to the unemployed than with the execution of the public works projects, and hence must be considered primarily as a relief agency. During the four months of its existence, it spent nearly $ 1000 million.

5. Reconstruction Finance Corporation: In addition, much of the money that continued to be spent by the government through the RFC and other agencies, especially to farmers, amounted in practice to direct financial relief, and constituted a direct contribution to consumers' purchasing power.

6. Veterans' Bonus Act: Actually, the largest single net contribution to consumers' purchasing power, out of Federal deficit, did not take the form of relief. Under the Veterans' Bonus Act of 1936, nearly $ 2000 million were distributed to war veterans, and about 1/2 of them were promptly cashed and spent. In 1934 or 1935, a net contribution to purchasing power would have constituted a valuable stimulus to recovery. By 1936, 'bottlenecks' had already begun to appear, and the war veterans' distribution was largely responsible for a rapid rise in prices, and thus indirectly for the disastrous reversal of the policy of the government spending of 1937, which resulted in the slump of the autumn of that year.

7. Public Works Programme: Part II of the National Industrial Recovery Act set up the Public Works Administration, with an appropriation of $ 3300 million (increased in 1934 by a further $ 500 million), to be spent on public works by the Federal government and other public authorities. Not all of the original appropriation was allocated to regular

public works projects. Some $ 1000 million were allocated to special agencies—such as State highway system which normally received Federal grants-in-aid, Farm Credit Administration, Civil Works Administration, Emergency Housing Corporation, and Tennessee Valley Authority. In April 1935, a second public works programme was adopted with an additional appropriation of $ 4000 million. The programme was administered partly by Public Works Administration, and partly by a new agency—Works Progress Administration. Federal expenditure rose to $ 8.666 billion for the fiscal year 1936, and the deficit was $ 4.55 billion—the highest in the peace time history of the U.S. to that date. (The functions of PWA and WPA were transferred to Federal Works Agency in 1939).

The four years, from 1933 until the slump of the autumn of 1937, undoubtedly saw a substantial recovery of the American economy. The Federal Reserve Board Index of Production rose from 64 in 1932 (1923-25 : 100) to an average of 116 for the first 9 months of 1937, which contrasts with the peak in 1929 at 121. Thus, by 1937, industrial production had recovered from about 1/2 of 1929 level to within 5% of that level. The national income, which, according to the Department of Commerce estimates, had fallen from $ 81,000 million in 1929 to $ 40,000 million in 1932, rose to $ 69,800 million in 1937, which, if allowance is made for the fact that the price level was considerably lower in 1937 than in 1929, indicates a similar advance. The rising expenditure and deficits were, thus, accompanied by a revival of business, which reached its peak in the first half of 1937, to be interrupted by the depression of 1937-38, after which the upward swing was resumed to continue for 10 more years of peace and war.

BANKING REFORM

The first task, which faced President Roosevelt immediately upon his resumption of office, was to deal with the banking crisis, which, during the preceding week, had assumed catastrophic proportions. The peculiarly complex character of the American banking system, and the unsound banking policy during the years of the boom, had resulted in a steadily increasing number of bank failures. In the early months of

1933, the process had led to a run on the banks, which, by March, threatened to wreck the whole exchange mechanism of the country.

The prompt declaration of a national bank holiday on March 4, and the passage of the Emergency Banking Act—which empowered the President to require the surrender of gold and foreign exchange, to issue additional currency upto $ 3 billion, to reduce the gold content of the Dollar as much as 50%, and to authorize Federal Reserve Banks to purchase additional securities upto $ 3 billion—was effective in dealing with the panic. Confidence was returned and the stampede for liquidity ceased. By June, the banking system was, for the most part, revived, although some 1000 banks remained closed.

Prompt measures to deal with the crisis had been essential if the scramble for liquidity was not to bring the economic life of the country to a complete standstill. But in view of the strategic importance of the supply of credit in an expansionist recovery programme, it was essential for the success for the New Deal that the banking system should be placed on a sound footing. In June, therefore, the emergency measures of March were followed by a number of measures of banking reform, the most important of which were—a system of government insurance for bank deposits, and the transfer to the State-controlled Federal Reserve Board of the power of performing open market operations, which had previously been in the hands of the private New York Federal Reserve Bank.

NATIONAL INDUSTRIAL RECOVERY ACT

The most determined effort of the New Deal to revive the the economic system by stimulating private investment was embodied in the National Industrial Recovery Act of June 16, 1933. Part I of this monumental piece of legislation gave power to the President to establish a system for the regulation of the whole American industrial production. Producers were urged to form 'codes' of fair competition, which, when approved by the majority of producers and the President, assumed the force of law. The goals of this codification of industry were defined by the President as 'the assurance of a reasonable profit to industry and living wages for labour, with the elimination of piratical methods and practices which have not only harassed honest business but also contributed to the ills of labour'.

These codes contained provisions governing minimum wages and maximum hours of employment, providing for collective bargaining between employer and employee, prohibiting the employment of children, and regulating such selling practices as credit terms, and cash and quantity discounts. Frequently, the codes permitted the code authority for the industry to control the volume of production by assigning production quotas, and, in a few cases, by restricting plant modernization or enlargement. In a number of codes, arrangements were made for setting minimum prices—usually in some relation to the average cost for the industry.

Organized labour accepted the law because of the opportunities presented to expand unions and improve conditions. Businessmen were willing to make these concessions to labour because they were enabled, as a group, to control prices and production, to plan operations for an industry as would be done if there were only one firm in it: in other words, to impose a monopolistic policy. Yet the act proved a resounding failure as a recovery device, because the theories on which it was based were quite contradictory. On the one hand, it attempted to increase purchasing power by raising wage rates: but, on the other, the beneficial effects this might have had, were nullified by advances in costs and prices, which prevented any real increase in purchasing power. Then restrictions on production were permitted which prevented enlargement of the real national product, and which discouraged investment to expand plant capacity. Consequently, after two years of operation, the act was declared unconstitutional by the Supreme Court.

While NIRA collapsed, many of its objectives have been attained, at least partially, through other legislation. Child labour was outlawed, and minimum wages and maximum hours were fixed for businesses engaged in interstate commerce, by the Walsh-Healy Public Contracts Act adopted in 1936, and the Fair Labour Standards Act adopted in 1938. The rights guaranteed to labour by NIRA received even greater protection under the National Labour Relations Act enacted in 1935. For only one industry—i.e. bituminous coal, were the price-fixing provisions re-enacted. Anti-trust provisions were never subsequently suspended, except temporarily during the war when enforcement would have disrupted economic activities essential to winning the war.

The NIRA, despite its unconstitutionality, stands as an interesting landmark as an attempt, on the part of government and industry jointly, to control industry and bring about recovery. Its industrial control features were the outgrowth of the philosophy that industrial planning is a better way to control prices and production than free market.

SECURITY EXCHANGE REGULATION

When corporations organize, their securities—stocks, bonds, debentures, certificates—are sold to the public generally through 'stocks markets' or 'security exchanges'. Corporate securities are owned by millions of persons, many of whom own only a few shares. Without governmental regulation, poorly informed investors may easily be misled, even by reliable brokers, while many will fall prey to unscrupulous promoters. The States, therefore, have attempted to protect the investing public by 'blue sky' laws aimed primarily at fraudulent sales, and by statutes requiring the registration of security with some State agency. While of value, these provided inadequate protection and the States hesitated to enact drastic laws fearing exchanges would move to some more accommodating State.

The stock market crash of 1929 and subsequent disclosures clearly revealed that the main contributory cause had been the unloading upon the public of worthless or dubious securities through misrepresentation or fraud—a traffic in the social and economic welfare of her people—and the experience brought home forcibly the need for stricter and more uniform regulation by national authority. The outcome was the enactment by Congress of two carefully drawn statutes—a Securities Act in 1933 and a Securities Exchange Act in 1934. The former seeks to provide the public with accurate information about corporate securities, while the latter provides for regulation of buying and selling of securities on security exchanges throughout the country. These laws are administered by a Securities Exchange Commission created in 1934.

Securities Act of 1933: The corporations issuing securities to the public, security exchanges, and persons dealing in securities outside the exchanges (over-the-counter sales) must register with the Commission. Every such registration must be accompanied by a 'registration statement' containing full financial and other information: and also by the 'prospectus' intended to be used in soliciting purchases by the public, and containing all information which an investor ought to have when making a decision.

Securities Exchange Act of 1934: Exchanges, brokers, and dealers are required to keep accounts in accordance with methods prescribed by the Commission and make periodic reports. The act also requires all corporations or companies, who have listed securities, to file annual and other reports with the exchanges and the Commission. In addition, the law makes illegal certain unfair practices—such as 'washed sales' and 'matched orders'. 'Washed Sales' is an arrangement, whereby one speculator agrees to sell at a point higher than that commanded by a security on the market, and another agrees to buy for the purpose of creating the impression that the security is commanding buyers. 'Matched Orders' is an arrangement, whereby a party hires two brokers unknown to each other, one to offer for sale and the other to buy, in order to create the impression of an active market to attract buyers. As a means of further controlling speculative booms, the Federal Reserve Board is empowered to fix 'margins'—i.e. fix the amount of credit that may be extended to those who buy securities.

The primary purpose of these two interlocked pieces of legislation is to prevent investors against every sort of fraudulent practice in the issuing and handling of securities offered for sale in interstate commerce: and make the exchanges fair and open market places for investors, rather than mere 'rendezvous' for conspiring speculators.

RECONSTRUCTION FINANCE CORPORATION

In normal times, private financial institutions, with the aid of the Federal Reserve System and only incidental assistance from the Treasury Department, have been able to meet the credit needs of the business community. The World War I brought unusual demands, causing Congress to create the War Finance Corporation to lend directly, when funds from private sources were not available, to industries whose operations were necessary to the prosecution of the war, to banking institutions, and building and loan associations. In 1919, the same Corporation was authorized to help finance the railroads, then under governmental operation, and American exporters. During the 1920's, these activities were terminated, but the depression caused a resumption of Federal lending on an unprecedented scale. During the World War II, most of these activities were continued and even greatly expanded. In this field, two world wars and a major depression have wrought a revolution, the government now assuming responsibility for directly or indirectly underwriting the credit needs of the national economy.

Of the principal lending agencies (National Housing Agency and Farm Credit Administration), the Reconstruction Finance Corporation is the largest and one most directly concerned with general business. This gigantic institution was started under the Hoover administration in 1932. It was given corporate form in order to afford greater freedom and flexibility of action. The corporation has a capital stock of $ 325 million, all of which is owned by the Federal government. It functions through a principal office in Washington, and loan agencies located in 31 principal cities. The Federal Reserve Banks act as depositors and fiscal agents for the Corporation. During the depression, the Corporation came to the aid of many who were having financial troubles. Loans were made to financial institutions—such as banks and insurance companies: railroads: business enterprises—such as factories, mills, mines, and merchandizing estates, both large and small: drainage and irrigation districts: and housing corporations. As the war approached, its funds were used to finance defense industries: and later, its resources were devoted almost entirely to financing war plants and activities.

Besides financing those in distress, defense and war activities, the Corporation has performed two other significant functions. First, it has made funds available, usually by purchase of securities, to other Federal agencies. It is obliged, for example, to help finance the Federal Deposit Insurance Corporation, Export-Import Bank, and the Federal Home Loan Banks. By the end of 1937, for instance, 46% of the whole Federal debt was held in the form of government securities by banks and trust companies, whose place as active lenders was being taken by various Federal agencies, of which this Corporation alone had made loans amounting to more than $ 5000 million. Second, it has been permitted to go directly into business. During the depression, this was possible whenever it could contribute to the relief of unemployment: while during the war, it could be done whenever it appeared necessary for the war effort.

In January 1945, the following RFC Corporations were in existence: Defense Plant Corporation, Defense Supplies Corporation, Metals Reserve Corporation, Rubber Reserve Corporation, War Damage Corporation, and RFC Mortgage Company. The activities of these subsidiaries included the construction, purchase, lease, and operation, of a wide variety of enterprises—such as steel mills, aircraft factories, munitions plants, research laboratories, and a host of others. The Corporation was operating more than 125 plants of one sort or another. Established to help finance industry through the depression, it has now become the largest financial institution in the world. Upto the beginning of 1945, it had authorized loans and investments aggregating $ 45 billion.

ANTI TRUST POLICY

Prior to the merger movement (last quarter of the nineteenth century), the basic policy of the Federal government toward industry was one of Laissez Faire. The right of private individuals to own and control personal goods, productive facilities and resources was an integral part of the American basic law. It was accepted as a matter of course that economic activity would be conducted by profit-seeking private enterprises. A minimum of governmental restrictions was imposed upon the activities of private enterprises.

Acceptance of this policy rested not only on the philosophy of individual liberty, but also on the generally accepted belief that competition among private enterprises would provide an adequate sort of automatic regulation that would ordinarily redound to the benefit of all. This belief, and the policy based upon it, survived the merger movement, and indeed survives to-day. Laissez Faire is still the basic principle—albeit a principle to which more and more exceptions are made.

Business in U.S.A. attained its present immense proportions mainly through the growth of 'corporations': and pyramiding of such corporations, in turn, into combinations of still greater size and power. Sixty or seventy years ago, corporations began forming associations or alliance, aimed at combinations based upon agreements fixing prices, dividing sales territory, limiting production, and sharing profits. Presently, there appeared also 'trusts', in which stocks of a group of corporate units were gathered largely or wholly into the hands of a single company acting as trustee, with, of course, control over all of the affiliates. In the time, too, arose 'holding companies', with assets consisting solely of stocks of operating companies whose affairs they controlled, and developed particularly in the field of gas, electric, and other public utilities.

On such a scale did these various developments take place that, in 1933, 100 largest industrial units (corporations, trusts, holding companies) with assets aggregating almost $ 100 billion, controlled not only nearly 1/2 the country's industrial wealth, but 1/5 of the national wealth all told. From such concentration of economic power, evils long ago began to flow —e.g. over-capitalization, 'watered stock', and the like, but chiefly monopoly, with its attendant strangulation of smaller competitive enterprises, its complete domination of an economic function or group of functions, and its independent and irresponsible control over services and prices.

Sherman Act, 1890

In 1890, therefore, Congress, taking a view of its commerce power then somewhat novel, risked judicial disapproval by passing a vigorous measure—the Sherman Anti-Trust Act—aimed at protecting trade and commerce against unlawful restraints and monopolies: and to that end declaring, in sweeping terms, every contract, combination in the form of trust or otherwise, or conspiracy in restraint of trade or commerce, or attempt to monopolize any part of commerce, to be illegal, and providing heavy penalties for violations.

Because of its very general phrasing, leaving way open for multiple interpretations of the ideas of 'restraint' and 'monopolization', and because enforcement was to be through case-by-case litigation in the courts, the act was, in many senses, a blank check written jointly to the Attorneys-General and to the courts. Each Attorney-General could bring such actions as he saw fit: and the courts, in each action, could define the crucial concepts as they were relevant to the cases that arose. A Supreme Court decision in Sugar Trust case of 1895 severely narrowed the scope of the law by ruling that although the defendant produced all but 2% of the sugar used in the U.S., its business was primarily 'manufacturing' rather than 'commerce', and therefore subject to regulation only by the States. In view both of the character of the act and the lack of widespread interest in its enforcement, it is not surprising that in the first 15 years of its history, it was almost unused. From 1891 through 1905, only 22 cases were brought under it, of which only 18 concerned industrial combinations.

The Roosevelt administration, that took office in 1905, had made campaign issue of 'trust-busting' (dissolution of monopolistic mergers), and was the first administration committed to a vigorous prosecution of the then 15-years old Sherman Act. Public interest in its enforcement was rallied in the election campaign. Moderately active enforcement of the act was accordingly begun in 1906, and was carried on in the succeeding Taft and Wilson administrations. 37 cases were brought under the Roosevelt regime, 53 under Taft, and 53 in the first Wilson administration. Notwithstanding government victories in other cases, however, the Supreme Court again weakened the law by setting up a distinction between combinations, which, in the court's opinion, involved only a 'reasonable' and those which amounted to 'unreasonable' retraint of trade—interstate or foreign. In cases, in 1911, against the Standard Oil Company and the American Tobacco Company, for example, the court applied this 'rule of reason' and, in effect, read the law declaring illegal 'every' combination and so on in restraint of trade, the word 'unreasonable' after the word 'every'.

Experience of this sort naturally suggested that if the law applied only to 'unreasonable' combinations, some means should be provided by which well-intentioned combinations might know whether they would be regarded by the government as 'reasonable', and therefore lawful, without first being subjected to a criminal prosecution to determine the matter. Demands arose, too, for clarification as to the kinds of arrangements that the government would look upon as 'unreasonable' restraint of trade, and as to the corporate practices that it would regard as constituting 'unfair' competitive methods. The outcome was the passage, in 1914, of the Clayton Anti-Trust Act to reinforce and supplement the Sherman Anti-Trust Act of 1890: and the simultaneous creation of the Federal Trade Commission as an agency to co-operate with the Department of Justice in the enforcement of 'anti-trust' laws, new and old, and especially to curb their competitive practices in the conduct of business.

Clayton Act, 1914

Earnestly sponsored by President Wilson as a 'new law' to meet 'conditions that menace our civilization', though opposed with equal vigour by business interests, the Clayton Act of 1914 did three things: First, it forbade various forms of unfair competition—including price-cutting to drive out competitors, granting rebates, making false assertions about competitors, limiting the freedom of purchasers to deal in the products of competing manufacturers, unjustifiable discrimination in prices between different customers, tying or exclusive-dealing contracts as a condition of sale or lease of goods: and a long list of other abuses, discriminations, and restraints of trade which would tend substantially to lessen competition or create monopoly. Second, it forbade corporations to acquire stock in competing concerns, if the effect would be to lessen competition: and outlawed interlocking directorates in the case of larger banks, industrial corporations, and common carriers. Third, it made officers of corporations personally liable for violations of the act.

The object of the new legislation was to close the gaps in the Sherman Act, and President Wilson hailed it as supplying 'clear and sufficient law to check and destroy the noxious growth of monopoly in its infancy'. Clayton Act, however, never became a very important weapon in the anti-trust arsenal. Dealing only with a few specific practices among the many available to the business, poorly drafted, and handicapped by the flexible proviso that some of these were illegal only where they substantially lessened competition or fostered monopoly, it was emasculated through strict judicial interpretation. The courts nullified the section of the act dealing with inter-company stock acquisitions by holding that inter-company acquisition of assets was a legal alternative to stock acquisitions: and that mergers, which had acquired the assets of the combining firms at the time proceedings were instituted, were not in violation of the act even if stock acquisition had been undertaken as an initial step. The provision forbidding price discrimination contained so many loopholes and frequently was so narrowly construed as to have little regulatory scope. The provision prohibiting tying contracts was restricted largely to cases involving dominant firms without competitors, but has served a useful regulatory function within this limited sphere. Efforts, too, to make directors personally liable for the acts of corporations almost completely broke down.

Robinson-Patman Act of 1936 amends the Clayton Act in order to outlaw transactions through which chain stores received the benefit of prices that need not always correctly reflect all legitimate costs. It outlaws discrimination in prices of goods of 'like grade and quality', where the effect is substantially to lessen competition, where it tends to create monopoly, and also where the effect is to 'injure, destroy, or prevent competition which any person who either grants or knowingly receives the benefit of such discrimination, or with customers of either of them'. But the act, like other monopoly acts, has not been effective in reducing business concentration, which is as all-pervading now as it had been for the past 60 years.

Federal Trade Commission, 1914

Simultaneously with the passage of the Clayton Act in 1914 to reinforce and supplement the Sherman Act of 1890, the Federal Trade Commission was created, under the Federal Trade Commission Act, as an agency to co-operate with the Department of Justice in the enforcement of 'anti-trust' laws, new and old, and especially to curb unfair competitive practices in the conduct of business. The Commission performs a variety of functions.

1. The Commission has large powers of investigation and may require any specific reports from businesses, other than banks and common carriers engaged in interstate commerce.
2. It may hold hearings, require the attendance of witnesses, and has the right to copy any documentary evidence. It must keep a full written record of testimony.
3. It works out lists of unfair practices, and holds conferences in which representatives of industry are encouraged to agree to avoid such practices.
4. It guards against unlawful acquisition of stock by corporations, and against prohibited interlocking directorates.
5. It advises the corporations on organizational and other matters with a view to helping them avoid running afoul of the law.
6. It investigates trade conditions and practices in and with foreign countries where combinations or practices may affect foreign commerce of the U.S.
7. It recommends Congress new legislation calculated to uphold the principle of fair competition in the interest of both business itself and the public.
8. Whenever it reaches the conclusion that unfair competition exists, it may issue an order requiring 'such person, partnership, or corporation to cease and desist from using such method of competition'. If this order is not obeyed, the commission appeals to the courts. In the procedure before the courts 'the findings of the Commission as to the facts, if supported by evidence, shall be conclusive', though either party may apply to the court for leave to adduce additional evidence.
9. The Commission is authorized and directed to suggest to the court the form of decree which it believes to be justified—though this order may be modified by the court.

The powers of the Federal Trade Commission were considerably enhanced by the passage, in 1938, of Wheeler-Lea Act, which extended the Commission's authority to attack unethical competitive practices simply on the basis of injury to consumers. Numerous actions of this character designed to maintain the morals of businessmen for the protection of both their competitors and consumers have been undertaken to some public advantage. Certain actions have also been taken by the Commission against collusive agreements and various practices restraining trade, over which it shares jurisdiction with the Sherman Act, as enforced by the Department of Justice. A few of these have resulted in important additions to anti-trust law.

Nira: Arnold Program, 1933-43

The operation of the Sherman Act, from 1933 to 1935, was largely suspended by the National Industrial Recovery Act. Under NIRA, industries were required to form so-called 'codes' of fair competition, to be approved and enforced by the government. Many of these codes were essentially cartels or agreements in restraint of trade, designed, directly or indirectly, to limit output, raise prices, or otherwise restrict competition. Adoption of the NIRA plan reflected not only the latent desire of concentrated business to limit competition further, but also a growing general belief arising out of the depression, prolonged from 1929 to 1933, that competition was unworkable and should be replaced by centralized planning either by private business or by government. There was, at least temporarily, an abandonment of that basic faith in competition as a regulator of the economy, of which the Sherman Act was the principal representative.

In this light, the revival of the Sherman Act, in 1937, with a programme of vigorous enforcement, was astonishing. Its renascence seems attributable, at least in part, to the personality of a new comer to the administration—Thurman W. Arnold—who took charge of the Anti-Trust Division of the Department of Justice in the second Roosevelt administration, and undertook anti-trust enforcement with an attitude that was unique in the history of the Sherman Act. The aim of Arnold programme was to increase substantially the degree of competition and correspondingly to reduce prices through the elimination of 'private seizure' of control of markets, or private control of competition. Enforcement was to be in the public interest and was to emphasize greater over-all production of the necessities of life rather than mere technical compliance with the provisions of the act. Prosecutions were primarily against collusive agreements, and no general attempt to disintegrate combinations was proposed.

In other words, there was some shift from the old idea of trust-busting as an object in itself, to simply defending a free market in the necessities of modern life. With this broader social end in view, prosecutions were directed primarily against private groups that had established themselves in strategic positions of control—against 'bottlenecks of business' —that blocked the distribution of products anywhere along the line from the raw material stage to purchase by the ultimate consumer. Thus, beginning from 1938 to 1943, the Sherman Act was applied to the task of enforcing competition with greater vigour and perhaps more realistically than at any time in its history. During these 5 years, 44% of all proceedings started under the anti-trust laws, between 1890 and 1943, were instituted. Arnold, thus, became the most assiduous 'trust-buster' the country had known since Theodore Roosevelt.

While, however, the new enforcement campaign was in progress, the country was plunged into World War II. Once more, in war time, proceedings under existing laws had to be slowed: President Roosevelt announcing, in 1942, that while every effort would be made to protect the public interest, with no violation of the law escaping ultimate punishment, prosecutions would be postponed whenever it could be shown that they would tend to interfere production of materials for war use. In the same year, indeed, Congress expressly exempted from prosecution, at any time, any acts or omissions 'deemed in the public interest', and approved by the chairman of the War Production Board, after consultation with the Attorney-General. In general, however, the war years were a period of slackened effort: yet there was no complete cessation of anti-trust activity.

In the post-war years, President Roosevelt's lively interest was no longer in the picture. But his successor, President Truman, launched a two-fold programme. On the one hand, a vigorous drive for anti-trust law enforcement, and on the other a more co-operative approach aimed at clarifying for business the many ambiguities of existing law and drawing sharper lines between what the government considers legal and what illegal combinations and practices. In the meanwhile, the new studies were undertaken by a sub-committee of the Senate judiciary committee, by a committee headed by the Secretary of Commerce, and by other groups.

A Continuing Dilemma

The anti-trust policy, since its inception in 1890, may be viewed as an adjunct to the basic policy of Laissez Faire. Its ostensible aim has been to preserve the conditions under which competition will serve as an adequate regulator of economic activity. In the accomplishment of this aim, it has had to rely on the legal prohibition of what the courts and the Attorneys-General chose to regard as monopolization and restraint of trade. On the whole, its influence on competitive behaviour is thought by many not to have been significant. Concentrated market structures favourable to the limitation of competition have developed inspite of it, and it has certainly been less than completely effective in elimination of industrial co-operation or collusion through attacks on restraint of trade.

On the other hand, it is argued that, if they have not provided a panacea in economic policy, the anti-trust laws have accomplished much more than meets the eye: That under their pressure, there are neither private cartels in the European style, nor mergers to the extent of full monopoly, and that competition in general is more effective and active than if they had not been passed, or had not been lightly enforced. To this line of argument, it was added by Arnold that with more vigorous and better directed enforcement (together with repeal of conflicting legislation), the anti-trust laws could be much more effective than in the past, and could preserve competition as a fairly adequate automatic regulator of the economy. Certain changes in the judicial interpretation of the anti-trust laws, which now seem incipient, together with some statutory provisions, might appreciably contribute to this end.

FOREIGN TRADE POLICY

World War I marked an important turning point in the development of the United States of America as a world power. It terminated the debtor status that had characterized her international economic relations since independence, and made her a creditor nation on international account. In 1919, U.S.A. was owed some $ 2 to 4 milliard on private account, in addition to $ 10 milliard on political debts. In a still broader sense, World War I ended the period of British leadership and predominance in the world economy, and opened the way for assumption of leadership by the U.S.

When the war broke out in 1914, the foreign trade of practically the entire world became disorganized. Shipping was disrupted and much of it became the prey of enemy vessels. Peace-time cargoes gave way to wartime necessities, as the productive equipment of all nations—particularly of the belligerents—was directed to war purposes. Products of the neutral nations were in great demand. Consequently, U.S. exports rose abruptly from $ 2400 million in 1914 to $6300 million in 1917. The increase in imports was relatively less than that of exports inasmuch as European production was handicapped by war. After U.S. joined the war in 1917, she continued to supply Europe with large quantities of goods of all kinds, so that exports remained large. The principal exports were foodstuffs, iron and steel, and textiles. These exports were financed, to a great extent, by U.S. loans, most of which were never repaid.

The greatest increase in America's foreign trade came in two years following World War I, 1919 and 1920. In 1920, both exports and imports reached the highest points in Dollar values they had ever reached. Exports amounted to $ 8228 million and imports to $ 5278 million. The continuation of inflation in practically all countries, resulting in soaring commodity prices and incomes, and the seemingly unlimited demand for certain commodities, brought great prosperity and boom—prosperity of an unstable type, but prosperity in which foreign trade shared generously.

The depression of 1920-21, disastrous to many undertakings, was especially disastrous to foreign trade. Both exports and imports of the U.S. declined, in 1922, to less than

50% of their 1920 high points. As the world recovered from the depression and the effects of war, the world's production became organized upon a peacetime basis, and foreign trade resumed its upward climb. U.S. found then that it had to meet the competition of European nations—competition which had been almost wholly absent since 1914.

The prosperity and boom of the 1920's, which ended in 1929, were reflected in active foreign trade. By 1929, the U.S. foreign trade had recovered, so that exports amounted to $ 5241 million and imports to $ 4400 million. But the severe and prolonged depression which began in that year, brought with it a decline in the country's foreign commerce more serious than that of even 1920-21. In 1932, exports amounted to only $ 1612 million and imports to only $ 1323 million. Exports were, thus, only 29% of the 1929 figure, and imports about 30%. The effects of the drastic decline of foreign trade upon the U.S. industry, and upon the agricultural population dependent upon foreign market, was severe.

As depression gradually gave way to recovery, foreign trade, in 1933, began to regain much of its lost ground. All over the world, trade again increased, but the improvement, as far as Europe was concerned, was cut short by the outbreak of World War II in 1939. The foreign trade of the U.S.A., however, was expanded by the war, and in 1941 exports were approximately at their 1929 level. After the inauguration of the Lend-Lease arrangements in 1941, and especially after the U.S.A. became a belligerent late that year, exports increased considerably and reached a new peak in 1944. The great bulk of exports, during the war, went out under the Lend-Lease arrangements, since the recipient countries had inadequate sources to make payment. Imports increased somewhat, but, during the entire period, remained below pre-depression levels, since Europe was unable to export as usual.

The post-war re-adjustment of 1945 and 1946 resulted in a sharp reduction in exports, but imports rose considerably as foreign goods again became available. In 1947, however, exports expanded greatly and reached the highest level they had ever reached—$ 15,340 million. These postwar exports were paid for, to a large extent, by the U. S. government in the form of grants and loans to aid reconstruction. As

European production recovered, and as the rest of the world became less dependent upon the U. S., exports again gradually declined, but imports increased and continued to reach new high levels—also reflecting recovery abroad. After the invasion of Korea in 1950, and accompanying the rearmament programme, the expansion in the U. S. imports—particularly raw materials—was accelerated. The prices of raw materials rose sharply, thus increasing import values. Exports and imports were in approximate balance at the end of 1950.

Features of Foreign Trade

The most important aspect of the American position in international trade is its changing character. U. S. has gradually changed from an exporter of raw and crude materials and an importer of finished manufactured articles, to an importer of raw materials and exporter of finished products. This shift in the character of foreign trade reflects the continued industrialization of the U.S.A., approximating the position of such industrial nations as England, Germany, and Japan.

The U.S., with its extensive and varied resources and technological advancement, has developed an economy wherein the production of the different types of goods is well diversified. The U.S. today produces most of the crude materials, food supplies, and finished products, which it consumes. It is both an agricultural and industrial nation. Yet it is far from being self-sufficient. Despite large resources of raw materials, there are commodities—notably raw silk, tin, and crude rubber—which it does not have. There are others—such as sugar, copper, paper and pulp, hides and skins—of which it does not produce sufficient for its needs. And there are coffee, tropical fruits, and other luxuries, which it is eager to buy.

While the U.S. foreign trade has, over years, increased greatly in volume, this trade did not attain the significance in the overall economic life of U.S.A. as in that of most other countries. The possession of essential raw materials, the high industrial development, and the extensive buying power made the nation less dependent upon foreign trade for her economic prosperity. At no time, in recent years, did the value of either exports or imports represent more than 8 % of the national income.

The most significant aspect of the American position is the continued excess of exports over imports. This is not a new phenomenon. With the exception of one year (1893), this has been continuous since 1889. What is new is the fact that this so-called favourable balance of trade is now combined with America's position as a creditor nation. In brief, the U.S.A. is developing a creditor position by both foreign loans, and in excess of exports. The resulting position was, by no means, a healthy one, as creditor balances can be paid only in gold or in goods. Gold was largely disappearing from the debtor nations, and the free flow of goods was obstructed by high tariffs.

The principal commodities exported by the U.S., in order of importance, are: Machinery, cotton (unmanufactured), grains and preparations, chemicals and related products, automobiles, auto parts and accessories, textile manufactures, petroleum and products, iron and steel mill products, tobacco and manufactures, coal and related products. The principal commodities imported by the U.S., in order of importance, are: Coffee, non-ferrous ores and metals, ferroalloys, paper and paper materials, petroleum and products, crude rubber, wool (unmanufactured), cane sugar, saw mill products, fruits, nuts, vegetables, vegetable oils, fats, oil seeds, iron ore, pig iron, crude steel, chemicals, fertilizer materials and related products.

Most of the crude materials and foodstuffs that are exported—especially cotton and grain—go to Europe. Asia also takes a considerable amount of American farm products—cotton and tobacco. Inasmuch as manufactured articles constitute the smaller portion of the U.S. imports, and crude materials the larger portion, the source of U.S. imports has become increasingly the non-European world. Latin America, Canada, and the Far East now supply the country with the bulk of its imports.

Reciprocal Trade Agreements

American tariff history until recently has been characterized by a tendency toward more and more protection. From about the beginning of the last century until 1930, the country pursued a policy of increasingly high tariffs.

Republican administrations commonly raised tariffs, whereas Democratic administrations usually reduced them, but not to their former levels. Since the passage of the first tariff act in 1789 until the Hawley-Smoot Act of 1930, there has been a new tariff on an average of about every seven years. Since 1933, however, the U.S. has been seeking to reduce the country's extremely high tariffs, and has undertaken this through the negotiation of 'reciprocal' trade agreements, in accordance with the Trade Agreements Act of 1934.

The purpose of the new law (an amendment to the Hawley-smoot Act of 1930, which is still the basic tariff law of the country) was to make possible a programme of tariff reductions in return for concessions by foreign nations. The agreements negotiated are, thus, called 'reciprocal' trade agreements. The Act grants the President the power to make agreements with foreign nations, involving alterations in the tariff, without referring the agreements to Congress for approval. The President is authorized to negotiate for reductions in duties and other trade restrictions imposed by foreign countries, and to make reciprocal concessions with respect to U.S. imports.

The President's authority under the Act is subject to four limitations. First, he may not lower or raise duties by more than 50%. Second, he may not transfer an article from free-list to dutiable-list, or vice versa. Third, before concluding an agreement, he must give a public notice in order that all interested parties may have an opportunity to express their views. Fourth, he must seek the advise of the U. S. Tariff Commission and the Departments of Agriculture, Commerce, and State, and other government agencies. The inauguration of this policy may be said to mark a turning point in the method of handling American international economy, but it did not mean the abandonment of the policy of protection.

Between 1934-39, the U.S.A. concluded trade agreements with 20 countries: 1/2 of these were with the tropical or semi-tropical countries of Latin (South) America. The figures of the total reductions of trade barriers achieved make impressive reading. By 1939, more than 60% of the total American foreign trade was brought into the scope of trade agreements. In return, the U.S.A. had reduced duties on some

45% of dutiable imports and guaranteed continued free entry for more than 65% of imports previously on the free-list. These reductions assisted in the revival of American foreign trade, and indirectly of world trade.

The authority of the President to enter into trade agreements, under the original Act of 1934, was to remain in force for 3 years. It has been periodically extended for varying periods and with some alterations. The U. S. negotiated trade agreements with 28 countries from 1934 upto 1947, at which time it entered into a 'multilateral' trade agreement with large number of countries, and ceased thereafter to negotiate 'bilateral' trade agreements. The General Agreement on Tariffs and Trade (GATT), entered into force provisionally in 1948, repealed the existing trade agreements between U. S. and some of the parties to the GATT. Negotiations under the GATT for further reductions have taken place, from time to time, with the original participating countries, or with newly participating countries.

Export-Import Bank

Citizens of the U. S. have billions of Dollars invested abroad, and trade interests in all parts of the world. In addition to the Department of State, the chief centre of trade promotion is the Export-Import Bank of Washington. Its capital stock is owned entirely by the Federal government, most of it by the Reconstruction Finance Corporation, with which there is a close co-operation. This bank was created in 1934 to help finance trade with the Soviet Union. The second Export-Import Bank was created in the same year to extend credits to Cuba and other countries. At that time, U. S. foreign trade was far from prosperous, and these two banks were intended to help revive trade. Negotiations regarding settlement of the debts of the Soviet Union broke down in 1935, and no further loans were made to it. Consequently, the two banks were combined into one institution.

The bank has two primary functions. One, to lend money to exporters and importers who cannot obtain desired funds from private banks, to help them take advantage of foreign business opportunities. The other, to make loans to foreign governments to help them develop their resources, stabilize their economies, market products in an orderly manner, and to recover from the war. Loans to foreign governments have been largely of four types—i.e. for improving their monetary exchange situation, for developing internal improvements and production facilities, for developing strategic materials for use during the war emergency, and for financing relief and reconstruction. Brazil, Mexico, Cuba, France, China—all have borrowed heavily from the U. S. Loans are rarely made in lump sums: most of the loans have led directly to purchase of American goods for export. It also lends to private borrowers, but ordinarily only over a government guarantee.

In 1945, the bank's lending authority was increased to $3.5 billion, so that it could play a more important role in postwar reconstruction and also in economic development. It accordingly made large sums to European and other countries. As of the first of 1951, the Bank had disbursed $ 3.2 billion in loans. The bank's borrowers include most of the countries of the world.

Conclusion

The United States, since 1934, has made substantial progress in freeing its imports from some of the previously existing high rates of duty. It has reversed its historic course of higher and higher protective duties, interspersed with a few relatively small and short-lived reductions. These more recent activities are consistent with the government's belief in free enterprise, competition, and non-discriminatory multilateral trade, and its desire to promote an expansion of production and to improve living standards in all countries of the world.

FOREIGN ECONOMIC POLICY

In view of the leading position which the United States occupies in world affairs, its foreign economic policy plays a special role in the shaping of international economic relationships and in the determination of the kind of economic system or systems which prevail in the world. The United States foreign policy is given concrete expression in a number of ways. The U. S. has backed its foreign economic policy with Dollars, and during recent years has provided foreign countries with large sums of money for relief, reconstruction, development, defense, and other purposes. Special financial assistance has been extended to Greece, Turkey, India, and other countries. A considerable portion of the financial aid given to foreign countries, during recent years, has been in connection with European Recovery Programme and Marshall Plan, and military assistance.

Aid to War Allies

During World War I, the U. S. government extended large loans to its allies to purchase goods in the U. S. which they needed. The money was spent for munitions, food, and variety of articles which the U. S. was able to supply. The goods were purchased before the U. S. entered the war, during participation, and after the Armistice. The total of these loans amounted to $ 10.338 billion, of which only $ 2.753 billion were received by the U. S. as war debts interest and principal payments.

When World War II began in the late summer of 1939, the Roosevelt administration introduced legislation that would enable the British and its allies to draw deeply upon American resources and industrial power without regard of their ability to pay for such aid. Lend-Lease Act of March 1941, enacted before U. S. entered the war, was designed to avoid the troubles arising out of advances made by the U. S. government during World War I. The Act, accordingly, authorized the President to sell, transfer, title to, exchange, lend, lease, or otherwise dispose of, to any country, whose defense the President deemed vital to the defense of the U. S., any defense article, which was defined in the broad terms.

Total Lend-Lease transfers by the U.S., during and after World War II, amounted to $ 49.224 billion, including aid extended on cash payment terms and amounting to about $ 1.1 billion. The aid received by the U.S. from other countries—'reverse Lend-Lease'—totalled $ 7.869 billion. The net amount of Lend-Lease aid extended as grants, thus, amounted to a little over $ 40 billion. Over 2/3 of the total went to Great Britain, almost 1/4 to Russia, and most of the rest to China and France. The other 33 countries got 2% of them. Thus, 37 countries (counting British Commonwealth as one) got U.S. aid.

Marshall Plan

The main objective of the Marshall Plan (European Recovery Programme) was not only to save many Europeans from starvation, but also to help them rehabilitate their agriculture and industry and stabilize their monetary and financial systems in the hope of making them self-supporting.

In 1947, Secretary of State George C. Marshall suggested that if Europe would formulate a recovery programme, U.S.A. will see what it could do to help. British Foreign Secretary Ernest Bevin accepted the challenge and 16 European nations (except Russia) met in Paris in July 1947, formed a Committee of European Economic Co-operation, and submitted a report in September. The result was the enactment of the U.S. Foreign Assistance Act of 1948, incorporating the Economic Co-operation Act, which covers aid to Europe. To administer the European Recovery Programme, an Economic Co-operation Administration, under the Presidentship of Paul G. Hoffman, was set up in Washington, with 16 'Economic Missions' stationed in each of the participating country. Under this programme U.S. (mainly) was asked to supply goods, money, and credit, to the value of $ 22.44 billion, over a period of four years from 1948 to 1952.

An important part of Marshall Aid machinery was the Counterpart Fund. Each country set aside, in a special account, a part of its own national currency equivalent, in exchange value, to the Dollar aid received from U.S.A. on a direct grant basis. 5% of the Counterpart Funds were reserved for ECA expenses in country concerned, and for the purchase or development of materials for the U.S. stockpile. The remaining 95% can be released for such purposes as internal monetary and financial stabilization, stimulation of productive activity, and the exploitation and development of new sources of wealth. ECA also provided technical aid for reconstruction of European economy.

In connection with the ERP, the 16 countries participating in the programme established the Organization of European Economic Co-operation. This organization was a focal point in the administration of Marshall Aid, and has performed other important functions. It has endeavoured, among other things, to promote policies to expand trade and facilitate

European recovery generally. The U.S. encouraged the OEEC countries to reduce barriers to intra-European trade and to pursue liberal commercial policies. The OEEC, with U.S. support and finance, organized, in 1950, the European Payments Union. Members of the EPU have been required to reduce import quotas with respect to trade with each other.

From the middle of 1945 until the first of 1951, the amounts of funds provided foreign countries by the U.S., through loans or grants, totalled approximately $ 30.1 billion (chiefly for industrial goods and commodities, food and agricultural commodities, and technical services). Marshall Aid has rendered help to Europe at a vital point. The programme brought renewed hope and confidence to European peoples, and succeeded in aiding the restoration and stabilization of Europe's economic health. It was the greatest effort in peacetime co-operative aid that the world had ever seen.

Mutual Security

As a result of the North Atlantic Treaty (ratified by the U.S. in 1949) and plans for common defense, which were expanded following the Communist invasion of Korea, the U.S. has been extending large amount of assistance, under the Mutual Defense Programme, to Latin America and other countries co-operating in resistance to aggression. The aid is largely in the form of direct grants, although in some instances naval vessels and other items have been sold to foreign governments. In addition to military assistance, economic aid to foreign countries is continuing, and in some cases being expanded.

In a special message to Congress, in May 1951, President Truman requested the Congress to appropriate $ 8500 million to finance a Mutual Security Programme. This sum was to be utilized entirely on a grant basis. Of this amount, $ 6250 million was for military assistance and $ 2250 for economic aid. The plan consolidated into one programme the various types of previous foreign aid—including that of Marshall Plan, Mutual Defense Assistance Programme, and aid to under-developed countries under Point Four Programme.

The U.S., thus, is pursuing a course of major aid on a grant basis to foreign countries.

LABOUR POLICY

Organized labour in the United States made little progress until after the Civil War. The first really significant national labour organization was the Noble Order of the Knights of Labour, founded in 1869 as a secret society and later changed into an open organization of all kinds. Filled with nationalism, however, the leaders wasted the powers of the union on unsuccessful efforts at co-operative manufacturing plants and on attempts to make the stronger skilled labour groups fight the battles of the unskilled. After 1886, this organization waned, as the American Federation of Labour, founded in 1881, grew in strength to become the spokesman for the organized labour of the country. Trade union membership in 1900 was 868,500.

Organized labour fared well in the artificial environment of World War I, when the demand for labour rose much faster than the supply (immigration having ceased and many able-bodied workmen having entered the armed forces). Unions expanded rapidly in membership and power, a fair percentage of the gain coming among the hitherto untouched unskilled class. In large part, employers abandoned their anti-union tactics during this period, and union members were members of the council that advised the government officials about the prosecution of the war on the home front. Between 1916-19, average membership of union increased from 2,772,700 to 4,125,200.

Although the international position of labour was stronger after the war, the position of American labour was weakened after the conclusion of the conflict. In the economic depression, which inevitably followed the wake of the war expansion, all but the most powerfully organized workers experienced wage decreases. Strikes to prevent deflation or to secure higher wages were generally unsuccessful. The absorption of four million soldiers increased the competition for jobs. Corporations, as they saw their profits declined, curtailed welfare operations.

In addition, the organized labour found its influence undermined in subtler ways. One of the chief weapons used to disrupt the organized labour movement, in 1920's, was the 'company union' (ordinarily including all employees in a given establishment, and commonly dominated by company officials). Prior to 1917, not more than a dozen important plants had introduced this system: but, by 1927, there were hundreds with a membership of over 1,400,000. The growth of company union was rapid in railway industry, metal trades, and electrical manufacturing establishments.

Another subtle weapon directed against organized labour was employee stock-ownership. The leadership in the promotion of stock-ownership, in the utilities, was taken by the American Telephone and Telegraph Company, United States Steel, and Banthelem Steel: in the railroads, by the New York Central, and Pennsylvania: and, in the oils, by the Standard Oil Company. When it is realized that a large proportion of this stock is held by the superintendents and by the salaried office and executive force, the actual share owned by wage-earners appears even smaller. Moreover, while the actual number of shareholders increased, the technique whereby a small group may maintain control of an industry has been perfected. The democratization of capital and of business has made little, if any, progress through employee stock-ownership.

In 1926, Congress passed the Watson-Parker Act dealing with labour on interstate railways. One significant provision was aimed at banning the employers' anti-union activities—such as the previously legalized and protected 'yellow dog' (contracts by which employees bind themselves not to join a trade union). Railroad companies were forbidden to discriminate, in hiring and firing, against employees who joined or organized unions for the purpose of collective bargaining.

Again, the Norris-La Guardia Act of 1932 stated it to be the public policy that workers should be free to unionize. The act made 'yellow dog' contracts unenforceable in the Federal courts, and expressly forbade the courts to issue injunctions against labourers for striking, for using union funds in aid of a strike, unless the employer could show that he had made 'every reasonable effort' to arrive at a settlement, or that unlawful acts had been committed or threatened by the strikes. The Act was not enough to assuage the distaste of voters for the political party under which economic catastrophe had befallen in the country. In November 1932, the Republicans were voted out of office. The New Deal was about to take over. Trade union membership dropped from 5,110,800 in 1919 to 3,780,000 in 1933.

Nira Section 7(a), 1933

The first half of the 1930's clearly marks a momentous shift in the attitude of the government toward unionism. A century and a half before, the government's attitude had been one of suppression. During the previous century, the attitude may be said to have been one of toleration. But now, it was one of encouragement. Partly, no doubt, to meet the current need for union recognition, but largely to obtain labour support and co-operation in the reversal of the anti-trust and monopoly principle, which had, in theory, previously conditioned government legislation of American industry, the National Industrial Recovery Act of 1933 included a clause providing for union recognition and collective bargaining.

Famous Section 7(a) of the NIRA, which became effective in June 1933, provided that employees shall have the right to organize and bargain collectively through representatives of their own choosing: and shall be free from interference, restraint, or coercion of employers of labour or their agents, in the designation of such representatives, or in self-organization, or other concerted activities for the purpose of collective bargaining, or other mutual aid, or protection. No employee, as a condition of employment, might be required to join a 'company union', or refrain from joining a labour organization of his own choosing: and employers had to comply with the code regulations for their industry respecting labour.

The Supreme Court decision, which junked NIRA, did not involve labour provisions. Congress continued them in the Wagner-Connery National Labour Relations Act of 1935, and created a National Labour Relations Board for its permanent enforcement. The Act was approved by the Supreme Court. NLRB has its principal office in Washington, but it functions through 22 regional offices. The Board has jurisdiction over all non-governmental employees and employers engaged in interstate and foreign commerce, except those in the railway and airway industries, which are separately handled by the National Mediation Board.

Wagner Act, 1935

The National Labour Relations Act of 1935 (Wagner-Connery Act) was one statute that truly deserved to be called the Magna Charta of organized labour. It contained two main sets of provisions. First, upon complaint by unions and after hearing by the Board, the Board was authorized to issue 'cease-and-desist' order to employers found guilty of the unfair labour practices of interfering with the freedom of workers to form unions: discriminating in hiring, firing, or tenure against union members: fostering or dominating labour organization: or refuse to bargain collectively with a bona fide, duly certified, labour organization. In cases of non-compliance with its orders, the Board was empowered to obtain enforcement from an appropriate Federal circuit court of appeal. Second, on its own motion or upon request by a union, the Board was authorized to hold a secret, free election among the employers' workers to determine or certify which union, if any, was the proper representative of the workers for collective dealing with the employer.

Though the Act is broad, it does not interfere with an employer's right to discipline or discharge employees for reasons other than their participation in union activities. Moreover, while the employer is required to bargain in good faith, the Board cannot compel him to come to an agreement. Employer can still lockout of business rather than yield to union demands: but he must first attempt to reach an understanding. Both the legislation itself and its administration has been the subject of bitter controversy, yet it has been a boon to organized labour: and so far as they are concerned, it is the 'sine qua non' among Federal statutes. Following 1933, the organization of labour went ahead rapidly, facilitated by the protection afforded by the Wagner Act, and the revival of business activity in 1936 and 1937. By 1937, the total trade union membership was 6,000,000.

Fair Labour Standards Act, 1939

With the Labour Relations Act safely validated judicially, the makers of policy in the Roosevelt administration advanced to another significant line of action. To this time, the Federal government had dealt with wages and hours only in connection with its own employees, employees of contractors, and employees of common carriers. In nearly all instances, such legislation applied only to women, or women and children, and only to certain industries.

Accordingly, in 1937, President Roosevelt called upon Congress for a Federal law that would pick up where the defunct NIRA left off, by putting a 'floor' (a minimum wage law) under wages, and a 'ceiling' (a maximum hours law) over hours, and by abolishing child labour. The result was a Fair Labour Standards (Wage and Hour) Act of 1939, representing the government's most ambitious attempt as yet to regulate working conditions in industry. Applying, in general, to workers of both sexes engaged in manufacturing, mining, and transporting commodities moving in interstate commerce, the Act laid down nationwide regulation on all subjects specified by the President—i.e. wages, hours, and child labour. The Act, however, does not apply to workers engaged in agriculture, processing of farm products, and other industries.

1. Wages: A minimum wage of 25 cents an hour was specified for the first year of the law's operation, 30 cents for the next 6 years: and in 1945, at the latest, the figure was, in general, to be 40 cents (it actually did so in 1944), thus raising the wages of more than 1,000,000 workers. 10 years after, when the average hourly wage in manufacturing industry had risen to $ 1.29, standards were so much higher in most industries than those required by the Act that it no longer had much effect. In 1949, the law was amended to raise the wage minimum to 75 cents per hour.

2. Hours: In the Act, 44 hours was set as the maximum amount of labour per week during the first year of the law's operation, 42 during the second, and 40 hours after October 24, 1941, with, in all cases, over-time pay at one-and-a-half time the regular rate. Within limits, however, the work-week may be extended by collective bargaining agreements—especially in industries requiring speeding-up in certain seasons. But the law provides no limitation on the number of working hours for one day.

3. Child Labour: Finally, child labour was placed under drastic restrictions by provisions prohibiting goods produced under conditions of 'oppressive child labour' to be handled in interstate commerce—such child labour being

defined as including the employment of any children under 16 in manufacturing or mining (in 1949, employment directly in transportation and communication was added), or under 18 in occupations declared by the Children's Bureau (now by the Division of Labour Standards in the Department of Labour), to be particularly hazardous or detrimental to their health or well-being. In occupations, within the purview of the law (other than manufacturing, mining, transportation, communication, commerce), children under 14 or 15 may be employed in periods not interfering with their schooling, and under conditions not injurious to their health and general welfare.

In laying down these and other regulations, the government not only evidenced a new concern about wages and hours for industry as a whole, but unequivocally endorsed labour unions as instrumentalities through which workers might collectively compel employers to live up to adequate wage and hour standards, and otherwise maintain good working conditions. The Act was upheld by the Supreme Court.

Labour Organizations

The year 1935 is significant in the history of organized labour: it saw the formation of Committee for Industrial Organizations within the American Federation of Labour. The CIO was formed because the AFL majority, composed of craft unionists, refused to take advantage of the organizing opportunities afforded by the successive favourable statutes culminating in the NIRA. The craft unionists refused to surrender their jurisdictional rights in the highly mechanized mass production industries. While the progressives, headed by John L. Lewis, argued that the inclusive industrial form of union organization was much more appropriate than a 'conglomeration' of loosely federated crafts. Calling upon the combined financial and human resources of the eight member unions, the CIO set up a number of committees of these industries, concentrating first on basic steel. New organizing methods were employed with marked success. In 1936, the AFL suspended most of the CIO unions—the suspension taking effect at the local, state, and national, levels. But CIO members were undeterred from their task.

In 1937, peace negotiations between AFL and the suspended CIO unions to work out arrangements, whereby the labour movement might be united on mutually accepted principles of structure and function, broke down. Consequently, CIO was forced to organize its members into a rival federation of labour—the Congress of Industrial Organizations. During the first five years, most of the CIO energies were devoted to organization drives, in which it not only showed uncommon imagination and vigour, but also an unusual ability to use effectively, for its purposes, the administration of such statutes as the National Labour Relations Act, Fair Labour Standards (Wage and Hour) Act, and Walsh-Healy (Government Contracts) Act.

By 1940, there were about 9 million workers in the rank of American unions. Almost half of these were in AFL affiliates, about 40% in CIO unions, and a little more than 10% in non-affiliated organizations. Thus, under the encouraging conditions of the New Deal, union membership almost trebled from 1932 to 1940. Most of the manual workers in the country's major industries were becoming organized.

War Time Control

Unionism had just come to many of the big, basic industries before the defense effort started. The government, recognizing the inevitability of inflationary pressure and knowing that price inflation brings unrest, and low, interrupted production from high labour turnover (as the workers shop around for higher-paying jobs) and from strikes (as workers quit collectively to enforce demands for higher pay), instituted price-control through the Office of Price Administration, and wage-control through the National War Labour Board. Recognizing also that price-wage-rate stabilization would not itself be a complete guarantee against work stoppages, the President got management and unions voluntarily to give up the strike and lock-out and other major forms of economic coercion, in return for representation on the War Labour Board, which, if government mediation failed, was in effect to act as an agency for compulsory arbitration for unsettled labour disputes. This Board was abolished after the V-J Day in the fall of 1945.

Shortly after its creation, the Board, in ruling upon a request for higher wages on behalf of workers in the steel industry, announced the much controverted 'little steel formula', which became the basis of subsequent decisions with respect to wage increases. According to this formula, wage increases would not be permitted in excess of 15% of what they were on January 1, 1941. Failure to respect the Board's decision carried with it the penalty of government's confiscation of the business, and made work stoppages, subsequent to seizures, illegal. The provisions relating to hours remained the same—i.e. time-and-a-half for all hours worked above 40 hours a week.

Taft-Hartley Act, 1947

The high point in labour's steady advance, under the New Deal, was the passage of the National Labour Relations Act of 1935. Because of its unequivocal guarantee of labour right of self-organization and collective bargaining, its tolerance of the 'closed shop', its outlawing of 'company unions', its alleged tendency to create a labour monopoly, and its lack of balance in proscribing practices as unfair when indulged in by employers but making virtually nothing unfair when done by labour organizations, this Act was from the outset vigorously criticised by industry, and as time went on, by sizeable sections of the press and general public as well.

During the war years, the matter was largely in abeyance. But in 1946-47, circumstances brought it again to the fore. On the one hand, employment was at a peak, unionization had reached unprecedented levels, collective bargaining had won its way as an established technique, and labour was, or at least seemed to be, riding a crest of political power than at any earlier day. On the other hand, the country was experiencing the most formidable labour-management troubles in a generation. The result was the enactment of the Taft-Hartley Act, in June 1947, of which the following are the principal features.

1. 'Closed Shop' and 'Union Shop': When the Act was passed, 30% of all organized employees worked under 'closed shop' (one in which an employee must belong to a union in order to obtain a job) : and more than that proportion were under 'union shop' (one in which every worker in an establishment must become a union member, if not already such, within 30 days after taking employment) rules. Under the

present act, the 'closed shop' is completely banned: and 'union shop' may be maintained only if a majority of all workers in a plant eligible to vote on the question so demand, and only under restrictions aimed at protecting employer interests.

2. Collective Bargaining: The basic rights and procedures of collective bargaining, as guaranteed in the National Labour Relations Act of 1935, are reaffirmed, with full freedom for both employers and employees to choose the agents who will represent them at the bargaining table. But whereas previously only employers were compelled to bargain, employees are now equally forbidden to do so: and whereas formerly employers might not, in the course of bargaining or otherwise, make even non-coercive statements to their employees or others without risk of having what they said adduced as evidence of unfair practice, now they may do this with impunity.

3. Unfair Labour Practices: The Act forbids certain unfair labour practices—e.g. employees may not be forced to join unions: members in an 'union shop' may not be required to pay excessive initiation fees or dues: unions cannot compel employers to use more employees than are required ('featherbedding') : secondary boycotts (in which one party refuses to deal with another unless the other will, in turn, refuse to deal with a third): jurisdictional strikes (one called to force an employer to hire the members of the striking union, or stop using members of a rival union) arising, for instance, out of conflicts between AFL and CIO unions—all these labour practices are banned, and unions are now liable to suit.

4. Strikes: The right to strike, when other measures fail, is fully recognized. But judicial strikes, and strikes against Federal government are absolutely prohibited.

5. Political Provisions: Benefit of National Labour Board procedures—e.g. hearing and deciding complaints against employers, can be claimed by no union having any officer refusing to declare under oath that he is not a member of the Communist Party, and that he does not favour the forceful or unconstitutional overthrow of the government. Another section forbids labour unions to make any contributions or incur any expenditures from union funds in connection with any election to any Federal political office.

6. Administration: The National Labour Relations Board remains, with supervising bargaining and repressing unfair practices still its main fields of activity. To meet the criticism, however, that the Board was, at the same time, 'investigator, prosecutor, judge, and jury', the agency is now turned into a purely quasi-judicial body—a 'labour court' with all work of investigation and prosecution devolved upon a new official General Counsel, appointed by the President and Senate for four years, and having full supervision over 20 regional offices and their field staffs.

The extraordinary prosperity and very high employment levels of the World War II and immediate post-war years brought union membership, in 1947, upto about 15,000,000, divided approximately as under: AFL 7,000,000: CIO 6,000,000: railroad unions 1,000,000: independent United Mine Workers 500,000: and other independents 500,000. While the Taft-Hartley Act of 1947 was intended to deprive them of some of the protection conferred by the Wagner Act of 1935, the unions seemed hardly likely to suffer much loss in membership. Thus, the phenomenal growth of the organized labour movement, its emergence as a permanent and important influence on economic affairs, manifested by the union drive for higher wages and improved working conditions, was one of the highlights of the economic history of the U.S.A. of the 1930's and 1940's.

CONCILIATION AND MEDIATION

In a free society, disputes between capital and management on the one hand, and labour on the other are inevitable. Other countries have tried various schemes for resolving such disputes, even to the extent of abolishing either the capitalists as in Russia, or labour unions as in Germany and Italy. In United States, however, governmental efforts normally have been directed toward providing machinery by which voluntary settlement can be made. Normally Federal law provides only for voluntary conciliation, mediation, and arbitration. The principal agencies involved are the National Mediation Board and the U.S. Conciliation Service, although employees of other labour agencies—especially the National Labour Relations Board—effect a great many com-promises that might otherwise flare into major disputes.

The most obvious place (aside from its own labour relations as employer) for the Federal government to start trying to apply industrial strife was in connection with railroads—both because of the disastrous consequences of breakdown in the country's transportation services, and because, under the commerce clause, there could be no possible doubt about constitutional authority. Starting with legislation dating from as early as 1888 and culminating in the Railway Labour Act of 1926 (strengthened in 1934), a scheme for handling disputes in that field was developed, which, at least down to somewhat disillusioning experiences since 1946, was regarded as the best achievement of its kind in her experience. The machinery employed is based on the principle of one mediatory agency taking over when another fails: and a gradation of three agencies is provided for.

Railroad Disputes

In the event of a dispute between a railroad company (or an express or pullman company, or an airline company—for the system applies also to these) and its employees, either party may invoke the services of a standing National Mediation Board of 3 members appointed by the President and Senate: or the Board may step into the picture by volunteering its good offices. In any case, it will endeavour to get the parties into conference and bring about a settlement. Unsuccessful in such effort, it normally will turn the situation over to another Federal agency—a quasi-judicial National Railroad Adjustment Board, consisting of 36 members working in 4 divisions or panels, each with equal representation of employers and employees, and each exercising jurisdiction over some particular branch of railway employment.

If the appropriate panel also fails (with perhaps by this time a strike voted or actually going on), one final step remains. The President may, at discretion, start negotiations afresh by referring the controversy to an 'Emergency Board' of his own choosing, whose findings and recommendations, it is true, will have no binding effect, but may be received with such public approval as to leave the contenders little practical alternative to accepting them. Failure in all these stages in connection with a threatened strike of trainmen and engineers, in 1946, led the government, acting under war time powers, to take over the railroads and operate them temporarily. With different organizations of employers involved, the experience was repeated in the spring of 1948, and again in the late summer of 1950.

Disputes in General

When the Department of Labour was set off separately in 1913, Congress authorized it to act as labour-management mediator and to appoint Commissioners of Conciliation to aid in bringing about settlement of industrial disputes throughout the country, whether or not having any interstate aspect Between that date and its deplacement under the terms of the Taft-Hartley Act of 1947, a United States Conciliation Service in the Department of Labour, functioning through regional offices, and, of course, supplementing similar activities of State Conciliation Services, handled a total of 100,000 disputes, some minor but many major, and most of them successfully.

The procedure followed by the Conciliation Service varied, somewhat depending upon the nature of the case. The Service kept constantly informed about industrial conditions and special situations affecting interstate or foreign commerce, which might become disturbed. If major disputes arose, the Secretary of Labour or someone in the Service took initiative and proposed that its services be used to mediate: or parties to the dispute indicated that assistance was desired. Where both parties were willing, the Commissioner of Conciliation intervened, seeking to provide data pertinent to the argument, and ascertained, in confidence, the most that one party will give, and the least that the other will take without starting a strike. While many of the agreements were effected in this way, agents of the Conciliation Service were powerless if either party was unwilling to co-operate or accept proffered proposals. Occasionally, both parties displayed enough confidence in a particular agent or a panel of neutrals to submit the disputes to them for arbitration. Even where this was done, there were no criminal penalties that can be imposed upon the parties if they refused to abide by the award.

During the World War II, the conciliation agencies, just mentioned, remained intact, although a heavier burden was placed upon them. In addition, the National War Labour Board was created under a War Labour Disputes Act of 1943. 12 regional boards and several industry commissions were set up to help administer the programme. Members of the board were usually residents of the particular regions they served. Commissions for industries—such as trucking, shipbuilding, lumber, and others—acted in the same manner as regional boards. The regional boards and commissions processed most cases referred to the War Labour Board. The National Board formulated general policy and sat as a court of appeals. The Board went out of existence in December 1945, its powers and functions being transferred to the newly-created National Wages Stabilization Board. All emergency labour controls—including War Labour Disputes Act—were terminated late in 1946.

Taft-Hartley Act, 1947

Finally, we come to the conciliation arrangements existing since 1947, when the authors of Taft-Hartley Act, considering the Conciliation Service biassed and therefore faulty, decreed the death of that agency and the making of a new start. The entire function of dealing with labour disputes is now transferred from the Department of Labour to two independent establishments:

1. Federal Mediation and Conciliation Service, under a director appointed for three years by the Senate, and empowered to set up regional offices convenient to localities, in which labour controversies are likely to arise: and
2. National Labour-Management Panel of 6 persons outstanding in the field of management, and 6 persons similarly prominent in the field of labour—all appointed by the President and the Senate, and charged merely with advisory functions.

In any non-railway dispute threatening to affect commerce in more than a local manner, the Mediation and Conciliation Service may offer its aid on its own initiative, or at the request of one or more of the parties. If its efforts fail, it must try to induce the parties to seek other means of settlement without resort to strikes, lockouts, or other forms of coercion. For threatened disturbances extending to an entire industry—e.g. coal mining, and impelling the national health and safety, additional procedures are prescribed—starting with investigation by a Presidential Board of Inquiry, and advancing, in situations seeming to the chief executive to justify it, to application to a Federal district court for a decree enjoining any strike or lockout (threatened or in progress) connected with the given controversy.

A feature taken over from the procedure relating to railroads, and highly valued by Taft-Hartley sponsors as minimizing the likelihood of work stoppages, is a 'cooling off' period. Either labour or management must give the other party a 60-day notice of a proposed termination, or remodification of a contract. If, 30 days after the contract expires, no adjustment has been reached, the Mediation and Conciliation Service must be notified : and from that point, the Status Quo must be maintained for another 60 days.

SOCIAL INSURANCE SYSTEM

Congress, in 1935, passed an omnibus Social Security Act, representing the first concerted nationwide attack, by all levels of government, on the problem of economic security for wage-earners and their families. Conceding that the measures, as enacted, did not provide complete protection against the hazards and vicissitudes of life, President Roosevelt, at all stages a vigorous sponsor, nevertheless characterised it as the most useful and fundamental single piece of legislation ever enacted in the interest of the American wage-earner. Towering above all else in the general scheme are two plans of true insurance—unemployment, and old age and survivors. The most important industries excluded from the Federal law are agriculture, domestic service, Federal, State, and local, governments, non-profit organizations, and railroad workers, (though railroad workers are protected under separate law).

Unemployment Compensation

The heart of the plan is the arrangement for financing from payroll taxes paid by employers. In the first place, the Federal government levies a 3% tax on all employers of as many as 8 persons, during at least 20 weeks of a calendar year, with taxable payrolls so computed, however, as not to include anything paid to any employee in excess of $ 3000 a year. In the second place, each State levies its own payroll tax (on the same employers or others also, if so desired) for support of its own unemployment insurance scheme, set up and operated under its own law. In the third place, however, when an employer pays his Federal tax, he is allowed an offset of 90% of it toward the amount he is paying his State. In other words, he actually pays Federal government only 1/10 of his nominal obligation. A State, therefore, can tax an employer at the rate of 2.7% without imposing any additional burden: because, anything upto that amount (90% of the Federal tax) will be deducted when the Federal tax is paid. In fact, 2.7% is the rate of the State tax in all States, except one.

All funds collected by the States go in an Unemployment Compensation Fund in the Federal Treasury (held in separate State accounts) and are invested in Federal securities, subject of course to requisition by the States as needed for benefit payments. State laws specify the conditions under which workers may receive benefits. The benefit a worker receives for a week of unemployment approximates 50% of his past weekly wages, but will vary from $ 3 to $ 25, depending on the State law and his prior earnings. Benefits are usually payable for not more than from 16 to 26 weeks in a 12-month period. In 1946, about 4½ million workers drew some benefits during the year, at an average weekly rate of $ 18.50. From the beginning of the programme through June 30, 1947, the State agencies collected about $ 11 billion in contributions and interest, and paid out some $ 4 billion in benefits, leaving an approximate balance of $ 7 billion in reserves.

Although railway employees are exempt from provisions of Social Security Act, they are covered by separate legislation enacted in 1938. The plan is administered by the Railroad Retirement Board. It is administered by the Railroad Retirement Board. It is financed by a 3% payroll tax paid by employers. In other respects, the plan operates much like the general one explained above.

Old Age and Survivors Insurance

Old Age (since 1939, Old Age and Survivors) Insurance is a nation-wide contributory retirement system, under which annuities or pensions, graduated in amount on the basis of earnings and duration of employment, are payable at the age of 65, from a fund built up from money, paid in equally by employers and employees. In 1939, 1.5 million workers, not previously reached, were brought in, and the name was changed to Old Age and Survivors Insurance, and coverage war further widened to include protection not only for the worker, but for his family, through provision for monthly benefits for aged wives and young children of retired workers, for widows, for orphans, and aged parents of workers dying before retirement. After prolonged agitation, an amending act of 1950 brought under the scheme, in addition, an aggregate of some 10 million, raising the total covered (not counting members of family) to approximately 48 million, or over 3/4 of the country's entire labour force.

Contributions, made by employers and employees alike, started at 1% of the wages paid or received in 1937, and under the original law would, by stages, have reached a maximum of 3 % in 1949. Because, however, this promised to build up huge reserves long before they would be needed, Congress, from year to year, 'froze' the tax at 1 %, doing this most recently in 1947 for the period through 1949, although, at the same time, specifying that, in 1950, the levy should rise to 1.5 %, and in 1952 to 2 %. As the matter now stands, the rate will not rise to 2 % until 1954. Whereas formerly the tax was payable on only the first $ 3000 of annual wages, or equivalent income, of all individuals, since January 1, 1951, the amount has been $ 3600. The maximum yearly contribution of a worker to-day, and of an employer on his behalf at the previous rate of 1.5, is $ 54.

The money is deposited in an Old Age and Survivors Insurance Trust Fund in the U.S. Treasury, where it is invested in interest-bearing obligations, whose interest and principal are guaranteed by the Federal government. Prior to legislation of 1950, the accumulated reserve, invested in U.S. securities and subject to withdrawals for benefits, exceeded $ 11.3 million. Before the legislation of 1950, the monthly average for a retired worker (taking 1947 figure) was $ 24.90, for a worker's widow $ 20.40, and for such a widow with 3 or more children $ 52.20. The general purport of the 1950 legislation is to increase the benefits of workers, already retired, by 77½ %, and of those due to receive benefits in the future by approximately 100 %, and to raise maximum family benefits from the former $ 85 to $ 150. These substantial increases meet a prolonged demand for more liberal payments, and are expected to be covered, as the years pass, by the increased tax rates progressively becoming operative.

Neither employees of the Federal government nor those of railroads are covered by the retirement features of the Social Security Act. Government employees, however, have had a retirement plan of their own since 1920, which is similar to the general one, just explained. This is administered by the Retirement Division of the Civil Service Commission. A similar plan was adopted for railway workers in 1935, which is administered by the Railroad Retirement Board, an independent agency. Provisions of this plan were liberalized by legislation enacted in 1946.

Conclusion

Although the Act did not make any provision for the introduction of a health insurance scheme, it provided for the following benefits: direct Federal grants to States in aid of maternity and child welfare, provision for the blind, vocational rehabilitation of the physically disabled, and the establishment and maintenance of public health services. By enacting the social security legislation in 1935, the U.S. was very belatedly joining the company of other major industrial nations—England and Germany—who adopted such social security system since 1880's and 1912 respectively.

RAILROAD TRANSPORTATION

When the World War I broke out, the President took over the railways primarily because of the belief that only through unified operation could the enormous volume of traffic of the war period be moved expeditiously. To operate the railways, the President appointed a Director General of Railways. In order to compensate the holders of railway securities, the President entered into contracts with the railroads, guaranteeing them an annual return not exceeding the average operating income for three years ending June 30, 1917. Through its unified, mandatory operation of the railroads, the government succeeded in meeting the traffic demands of the period during which the U.S. was actually at war.

The keynote of railroad history, since 1920, has been competition with other means of transportation—especially highway. Interagency Competition has been present in the U.S. to some extent since the colonial period, but never on the scale attained after 1920. During the three decades between 1920 and 1950, the airlines experienced their entire growth, the number of motor vehicle registrations increased five-fold, the mileage of surfaced road quadrupled, the miles of oil pipe line doubled, gasoline lines were first constructed, and modern barge transportation was established on the inland waterways.

As the railroads lost traffic, some of their lines became obsolete and were abandoned. By 1950, the total mileage of railroad route had fallen to 224,000 (or 30,000 fewer miles) than in 1916. Other means of reducing cost adopted by the railroads included the construction of new terminals and shops, installment of heavier rails, laying of multiple brakes, substitution of all-steel or steel-underframed cars for wooden ones, increase in the tractive power of locomotives, introduction of diesel engine, operation of longer trains, and setting up of automatic block signals and train controls. In addition to reducing costs, the railroads have met competition by readjusting rates and improving service. During the 1930's, passenger fares were almost halved, and freight rates were so reduced that the Interstate Commerce Commission found it necessary, on numerous occasions, to prescribe rate 'floors'. The railroads also published new types of rates—e.g. all-freight rates to meet truck competition, and cargo rates to meet barge rivalry. Important service improvements were the streamlining and air conditioning of passenger trains, scheduling of fast through freight runs, and institution of store-door pickup and delivery.

When the U.S. entered World War II, the burden upon the railroads was enormous. The waging of war on two fronts necessitated transportation across the continent and increased the average length of haul. The submarine menace and the demand for shipping for war purposes transferred coastwise and intercoastal traffic to the railroads. The shortage of rubber and gasoline caused much highway traffic to go by rail. Abundant crops added still more to the burden. Consequently, freight traffic grew from 361,000 million ton-miles in the busy year of 1937 to 737,000 million in the peak war year of 1944, compared with only 447,000 in 1929, the previous record year for rail traffic. In contrast with the earlier experience, however, the railways were left in the hands of their owners without a guaranteed return. Instead of government operation, the President established, on December 18, 1941, the Office of Defense Transportation with sweeping mandatory authority. Largely through the unusual co-operation from the Interstate Commerce Commission, other governmental agencies, carrier trade associations, individual companies, and shipping public, the carriers moved the traffic of war without a single instance of serious congestion at ports or terminals.

Transportation Act, 1920

Federal regulation of railroads began in a comprehensive way with the passage, in 1887, of the Act To Regulate Commerce. During the first 30 years of Federal regulation (1887-1919), the Federal law looked with disfavour upon consolidations, mergers, and close co-operation among the roads on the theory that these tended toward the diminution of competition with resultant monopoly and inefficiency. The legislation of 1920 significantly reversed the traditional attitude: it had as a major objective the building up of an adequate and efficient transportation service. The Transportation Act of March 1, 1920, established a positive and comprehensive framework of regulation on the following lines.

1. Rates: The heart of the Act was the rule of rate making. It reads as under. 'In the exercise of its power to prescribe just and reasonable rates, the Commission shall initiate, modify, establish, or adjust such rates so that the carriers as a whole (or as a whole in each of such rate groups or territories, as the Commission may from time to time designate) will, under honest, efficient, and economical management and reasonable expenditures for maintenance of way, structures, and equipment, earn an aggregate annual net railway operating income, equal, as nearly as possible, to a fair return upon the aggregate value of the property of such carriers, held for and used in the service of transportation.'

2. Recapture: The Commission was authorized to recapture 1/2 of the net earnings in excess of a rate return prescribed by the Commission, and later set by it at 5¾% of valuation. The railroad was to use its half to set up a Reserve Fund, on which it could draw in lean years to pay interest, rentals, and dividends, but not for acquisition of control of other property. After the reserve equalled 5% of valuation, the carrier could use additional earnings for any lawful purpose. The Commission was to use its 1/2 as a Revolving Fund to loan, on liberal terms, to weak railroads.

3. Combination: Pooling was made permissible, but depending upon the Commission's approval, which was limited to agreements that would improve service or reduce its cost, and would not unduly restrain competition. Combination through acquisition of control, by lease or stock ownership, was subject to Commission's approval: but the par value of the stocks and bonds of the acquiring corporation could not exceed the value of the consolidated properties, as determined by the Commission.

4. Financial Affairs: Commission's approval was required for issuance of securities—stocks, bonds, and other evidences of indebtedness—or for assuming liability as leasor, lessee, guarantor, endorser or surety, with respect to securities of any other person or corporation. The only securities exempt from regulation were notes, maturing in not more than two years after date of issue, and not aggregating more than 5% of the carrier's capitalization. As a further aid to the control of financial affairs, the act prohibited interlocking directorates, except where approved by the Commission.

5. Extension and Abandonment: No line could be constructed or abandoned by a railroad without the Commission's permission.

The Transporation Act of 1920 was a great landmark in the regulation of interstate commerce. It rounded out the scope of modern railroad regulation and shifted to the role of Federal regulation from one focussed on preventing abuses of individual carriers to one asserting a positive responsibility of the government for an adequate transportation system. The Act, however, did not have the results anticipated. The rule of rate making failed to provide the railroads as a whole a fair return on the fair value of their property. The recapture clause proved unworkable in practice.

The combination provisions of the act had failed to expedite of the railroads. The provision that 'capitalization of the consolidated corporation could not exceed that of the value of the properties consolidated' imposed a real hindrance to consolidation, because of the necessary delay required to bring all valuations involved up-to-date. Much of the combination or extension of control that took place was through minority stock holdings: but, in important instances, indirect control was obtained through holding companies, which the Commission was not empowered to regulate. Under separate provisions, the Commission was compelled to labour under a different set of rules in approving, on the one hand, combination by consolidation: and, on the other, stock and lease control. For example, a proposal for the former had to conform to a consolidation plan, which requirements did not apply to a proposal for stock or lease control.

Emergency Transportation Act, 1933

Emergency Transporation Act of 1933 is the most significant railroad legislation since 1920. It was precipitated by the severe economic depression of the early 1930's. It consists of two parts: Title I containing temporary measures to aid the railroads to meet the critical situation, and Title II making up changes in the existing act. The emergency provisions of the act looked primarily toward the elimination of waste arising from the failure of the railroads to co-ordinate their operations. Specifically, the objectives were three—i.e. encourage action on the part of carriers, which would avoid useless duplication of services, control allowances that unduly impaired net earnings, and eliminate other losses: to promote the formal reorganization of the carriers: and to provide for the immediate study of means improving transportation conditions in general.

To carry out these objectives, the Act created the Federal Co-ordinator of Transportation and three regional co-ordinating committees. Plans for accomplishing economies were to be devised by the committees. If the committees were unable to carry out such plans voluntarily, they were to recommend that Co-ordinator issue mandatory orders. Subject to appeal to the Commission and to the Courts, orders so issued were declared binding, and the carriers were relieved from the anti-trust laws to the extent necessary. The emergency provisions of the Act were to remain in force for one year from effective date, with the proviso that they might be extended for another year by Presidential proclamation. They were so extended to June 16, 1935. Congress, by joint resolution, again extended them to June 16, 1936, at which time they expired. Prior to and after, serval important studies were published by the Co-ordinator, some dealing with the improvement of regulation, and others with specific economy projects. Generally speaking, the economy proposals were unheeded, the companies being opposed thereto. Provisions of Title II were as under.

1. Rate Levels: The new rule of rate making was somewhat less assuring to the revenue needs of the carriers and more mindful to the effect of rates on traffic movements. The requirement that 'the Commission so set rates as to provide the carriers as a whole, or in groups, a fair return on the fair value of their property' was eliminated, since it had been virtually impossible to obey it. The revised rule, therefore, read as under: 'In the exercise of its power to prescribe just and reasonable rate, the Commission shall give due consideration, among other factors, to the effect of rates on the movement of traffic: to the need, in the public interest, to adequate and efficient railway transportation service at the lowest cost, consistent with the furnishing of such service: and to the need of revenues sufficient to enable the carriers, under honest, efficient, and economical management to provide such service'.

2. Combinations: The new Act tried to correct the defects of the previous legislation regarding combinations in four respects. First, any type of combination—whether consolidation or control by stock and lease—was to be legal when approved by the Commission, the approval being based on the finding that such proposed combination will promote the public interest. Second, carriers participating in a combination, which is approved by the Commission, was exempted from anti-trust laws 'in so far as may be necessary' in carrying out the order. Third, when a combination is effectuated through a non-carrier corporation—such as a holding company—that controlling corporation becomes subject to the Commission with respect to accounts, reports, and security issues. Fourth,

attempts to effectuate control by common directors or officers, or other means not provided for in the act, were prohibited.

3. Recapture: The recapture clause was abandoned retroactively, the Commission to refund to carriers the payments previously made.

4. RFC Loans: The act prohibited the Commission from approving loans to a carrier, under the RFC Act, if, in the opinion of the Commission, the borrower was in need of financial reorganization.

The new rule, thus, relieved the company of a formal obligation, made no mention of the doctrine of a fair return, and listed for consideration factors other than revenue needs. Although the rule did not ignore the revenue needs of the carrier, it has been severely criticised on the ground that it has caused the Commission to enter upon such extended investigations in rate cases that the credit of the carriers has suffered. Recommendation for another revision had not been acted upon by 1952.

Transportation Act, 1940

The Transportation Act, even more than the acts just described, reflected the changed circumstances confronting the railroads. After 1920, the competition of highway motor, inland water, coastline (shipping), overland pipe-line, and air carriers became more and more extensive. The competitive conditions, together with the effects of depression on traffic volume, caused general concern over the present and future financial status of the railroads and their relationship to other carriers. The primary object of the legislation of 1940 was to restrain competition, at least to a limited extent, and to bolster up the transport industries with special reference to the welfare of the railroads. The act tried to attain that objective on the following lines.

1. Rate Levels: The rule of rate making was revised and extended to motor and water carriers. The Commission was directed to give special consideration to export rates on farm products, and to investigate comparative levels of interterritorial and intra-territorial freight rates. The railroads were required to establish further reasonable through-rates with common carriers by water.

2. Combinations: The Act liberalized the Commission's

authority over railroad combinations. Unification was left entirely a voluntary matter. Before issuing an order approving a proposed consolidation, the Commission, instead of following the provisions of the Transportation Act of 1920, was required to give weight to the following considerations, which were still in effect in 1952—i.e. the effect of the transaction upon adequate transportation service, the effect upon the public interest of the inclusion or omission of other railroads in the region of the proposed combination, the total fixed charges resulting from the proposed transaction, and the interest of the carrier employees affected.

3. Amendment to RFC Act: The Reconstruction Finance Corporation was authorized to make loans to the railroads upto an aggregate limit of $500 million. Loans were to be made after the approval and certification of the Commission that the borrowing carrier might reasonably be expected to meet its fixed charges. Large sums were lent to the railroads under this provision: but most of the indebtedness was liquidated within a few years.

4. Rates on Government Traffic: Land-grant rates on certain traffic of the U.S. government were abolished: all but military and naval traffic were required to pay regular rates. These provisions were designed to relieve the railroads of the burden which they had assumed as a result of land-grants in aid of construction. But the burden was not completely removed until Congress, in 1945, required the U.S. government to pay full rates on military as well as civil traffic. In the meantime, the value of the concessions to the government had far exceeded the railroad subsidy from grant lands.

5. Board of Investigation and Research: This Board was directed to investigate and report to Congress with respect to the relative economy and fitness of rail, motor, and water transportation, the extent of public aid, and the extent and character of taxes imposed upon three classes of carriers. It was also authorized to make such other investigations as it deemed important for the improvement of transportation conditions, and for promoting the national transportation policy. The Board was organized in 1941 and expired on September 18, 1944, without accomplishing the major objective of a comprehensive report on the relative

economy and fitness of the different modes of transportation. Scholarly reports were issued on subsidies, taxation, and inter-territorial rates: but members of the Board disagreed among themselves and research staff on important policy recommendations. The reports of the Board, like that of the Federal Co-ordinator of Transportation, had not been reflected, by 1952, in much improvement of transportation policy.

HIGHWAY TRANSPORTATION

The development of the highway motor vehicle is one of the most brilliant pages in the history of American industry. Among its economic effects are the following—an enormous increase in the volume of transportation, extension of effective transportation facilities to many unserved locations, destruction of the virtual monopoly of inter-city transport long held by the railroads and modifications in railroad rates, alteration in the policies of railroad management, creation of different problems of co-ordination among the various carriers, and modification and extension of public regulation.

The increase in the number of vehicles in the U.S. has been phenomenal. With the exception of the period of depression in the early 1930's and of conflict during World War II, the registration of motor vehicles shows an increase every year since 1895. Beginning with only 4 registrations in 1895, growth was slow prior to World War I, but rapid thereafter. Within 5 years, 1920-25, the increase in the number of registrations exceeded that of the preceding 25 years. By 1949, registrations (including 550,000 publicly-owned vehicles) numbered about 45,000,000—or 5 times as many as in 1920. This number was equal to 3/4 of the entire world's registrations. No country is nearly so well supplied as the U.S. with this modern agency of transportation. In U.S.A. there is a motor vehicle for almost every 3 inhabitants.

Easily first in number are passenger cars. In 1949, there were 36,434,000 of these, as compared with 8,028,000 trucks and 209,000 buses. Over 4/5 of the trucks were owned by shippers who transport their own goods. Unlike railroad transportation, the great bulk of motor transport is private in character. From this characteristic arise special rate and regulatory problems.

Motor Carriers Act, 1935

The regulation of motor carriers began at an early stage in the development of highway transportation, although in halting and very limited fashion. In the late years of the World War I, when jitneys and other short-haul motor operations had sprung up in response to the shortage of organized transport mediums, certain of the States perceived the need for some legislation and undertook it. Pennsylvania, New York, Maryland, California, and several other States passed laws requiring certificates of public convenience and necessity, designed to restrict the development of the jitneys and of local stage lines. The purpose was chiefly to protect the street and inter-urban railways, which resented the intrusion of irresponsible motor vehicle operations into their business. From these minor beginnings, there was a gradual and accelerating development of State regulation of over-growing scope and effectiveness, which culminated in an organized move for national regulation of motor carriers, giving rise to Motor Carriers Act of 1935. Provisions of the Act are as follows:

1. 'Grandfather' Rights: Under the Act, any highway carrier in bona fide operation on June 1, 1935, must be authorized by the Interstate Commerce Commission to continue such operations, without requirement of further proof of public convenience and necessity.

2. Types of Carriers: The Act deals with four types of motor transportation agencies—i.e. common carriers or those who engage in transportation for the general public: contract carriers or those who operate for hire under special arrangement: private carriers or those who transport goods of which the carrier is the owner: and brokers or persons who sell transportation but do not actually perform transportation services.

3. Safety: The Commission was authorized to require safety bonds or insurance on the part of common and contract carriers: and it could prescribe regulations concerning the maximum hours of service, qualifications of employees, safety of operation, and the standards of equipment of all carriers—whether contract carriers or private.

4. Service: Before extending operations to additional

routes, common carriers were required to obtain certificates of public convenience and necessity: and contract carriers were forced to secure permits. Some conditions must be met before issuance of the two instruments.

5. Rates: Rates of common carriers were to be reasonable and non-discriminatory, were to be filed and published, and might not be changed without due notice. Commission could prescribe both maximum and minimum rates, establish joint passenger rates and the divisions thereof, and suspend proposed changes thereof. Contract carriers were merely directed to file their contracts, charge not less than the minimum rates specified therein, and give 30 days' notice of reduction in rates. The Commission could not prescribe maximum rates, and actual rates are not published.

6. Accounts: The Commission was authorized to prescribe the system of accounts and reports, require special reports, and have access to the books and records of common carriers and brokers. The Commission has also limited authority over the accounts of private carriers.

7. Combinations: Consolidations, mergers, or acquisitions of control were permitted, provided the Commission gave its approval. Such approval is required only where the number of vehicles involved exceeds 20.

8. Securities: The issuance of securities by contract and common carriers was made subject to the Act: but issues not exceeding $500,000 did not require Commission approval.

9. Administration: The administration of the Act was placed in the hands of Interstate Commerce Commission, which created for the purpose a special Motor Carrier Division, consisting of three Commissioners. Specified kinds of cases—including those concerning certificates, consolidation, or rates—which involved not more than three States, were to be referred to Joint Boards, composed of members appointed by the Commission from nominees selected by the regulatory bodies or by the Governors of the States concerned. Cases of a kind not specified, and those which involved more than three States, could be referred to Joint Boards at the discretion of the Commission. Decisions of these Boards were made binding, with the proviso that appeals might be carried to the Commission. This is a special feature of the

Act for formal co-operation with the State regulatory bodies.

WATER TRANSPORTATION

When the war broke out, the United States was substantially without a merchant marine in foreign trade. In 1910, the gross tonnage of vessels registered for the foreign trade was but 782,517. More than 90% of the ocean-going vessels were in the protected coastwise trades.

Shipping Board Act, 1916

The Shipping Board Act of 1916, therefore, created the United States Shipping Board to undertake the construction and operation of vessels. Although the primary purpose of the Act was to prevent monopoly and insure competition in ocean transportation, it thus provided also the basic authority for the wartime emergency fleet programme. On June 15, 1917, Congress appropriated $ 500,000,000 for government shipbuilding programme, together with $ 250,000,000 for the acquisition of plant, or of existing vessels and vessels then building. The Emergency Fleet Corporation was created as the agent of the Shipping Board to carry out the shipping task. But the shipbuilding programme was too late, and the bulk of the tonnage was not completed until after the war, with vessels continuing to be launched under the programme as late as 1921. Total American tonnage in foreign trade rose from 1,000,000 ton in 1914 to 11,000,000 in 1921, of which the greater part was in government hands. By that time, the world was faced with a surplus tonnage, and the U.S. government faced a formidable ship disposal problem.

Merchant Marine Act, 1920

It was obvious that few of the vessels could be sold to American companies, even at prices well below cost. It was, therefore, decided that a considerable number of them should be operated by the government itself, or by agents of the government, on the many foreign trade routes of importance to the commerce of the U. S. The powers of the Shipping Board were, therefore, strengthened and given a long run character by the Merchant Marine Act of 1920. Under this Act, the government sought to establish, and temporarily maintain, ocean steamship lines over the major world shipping routes from Atlantic, Gulf, and Pacific ports. It hoped to sell these lines, if necessary, at very low prices to American concerns for continued operation. The purchase, reconditioning, and remodelling of vessels was to be supported by liberal loans from a Construction Loan Fund of upto $ 25,000,000, established under the Act. Under these conditions, the percentage of American foreign trade carried in American ships was maintained at considerably higher level than before the war, varying between 30% and 40%.

The results of the policy were disappointing. Although a number of lines were established by the Shipping Board, they were operated, for the most part, at a loss by agents of the Board, and few lines were disposed of for private operation. Both the domestic and foreign trade were overtonnaged, although a large number of ships were laid up which could not be disposed of at any price. The vessels in operation were becoming obsolescent, but there was no incentive to replace them with new tonnage built in American yards, and the shipbuilding industry rapidly became stagnant. Foreign competition became more acute as new and modern vessels were placed in the service of foreign lines. Efforts to maintain an adequate modern American merchant marine on the high seas had largely failed. Moreover, the policy proved extremely costly, the Shipping Board was an inefficient medium for carrying out large-scale shipping operations, and the contracts with operating agencies placed all the risk upon the government and offered no spur to efficiency on the part of the operators. Manifestly, a new shift in body was essential.

Merchant Marine Act, 1928

Congress, therefore, reverted to a policy of mail subsidies, but for the first time on a sufficiently broad and liberal basis, to give some promise of success. The new mail subsidies were to be coupled with a continuation and augmentation of the construction loan policy. The Merchant Marine Act of 1928 provided for the increase of the revolving Construction Loan Fund to as much as $ 250,000,000 and permitted loans upto 3/4 of the cost of vessels to be built or reconditioned. Interest rates were to be low, and some loans were made at rates as low as .25 of 1%. Loans were repayable over a period of 20 years. Loan policy was closely tied to the mail subsidies, and the bulk of the loans were for the construction of combination vessels for liner service in the foreign and noncontiguous trades. Mail subsidies ranged from $ 1.50 per nautical mile of the outward voyage to $ 12.00 per nautical mile, depending upon the size and speed of the vessel subsidized. Payments under the Act were large —growing from $ 9,304,217 in 1929 to $ 29,536,733 in 1935.

Yet the results, in terms of rebuilding the American merchant marine, were by no means as significant as had been hoped. The limited success of the policy, despite the liberal loans available, was undoubtedly partly due to the depression in the ocean trades following 1929, which hampered the interest of operators in ordering new tonnage. The Shipping Board was powerless in the face of a failure to apply for loans to the extent envisaged by the Act. Moreover, the operating aids were limited to the vessels carrying the mails, and hence could not influence the replacement or modernization of cargo tonnage—the predominant portion of the merchant marine. The conduct of the programme had, however, considerably discredited the Shipping Board. In 1933, it was abolished, and its functions were transferred to the Shipping Board Bureau, established in the Department of Commerce.

Merchant Marine Act, 1936

An ambitious programme was again launched, in 1936, by the enactment of the Merchant Marine Act. The Act replaced the old system of subsidization through mail contracts, by direct comprehensive subsidies in ship-building and ship-operation. The shipping lines, formerly operated and administered by the Shipping Board and Merchant Fleet Corporation, were transferred to the new Maritime Commission. The Commission was charged with buying, selling, and building ships, operating the subsidy system, and regulating rates, fares, and practices of common carriers engaged in foreign commerce, just as Interstate Commerce Commission regulates carriers by water in inland and coastwise commerce.

The keynote of that policy was the provision for direct subsidy. The Maritime Commission was to determine the relative costs of constructing vessels in American as compared with foreign yards, and might grant to American shipping company a construction differential subsidy, representing not more than 50% of the total construction cost. The Commission would ordinarily itself have the vessel built for the operator in an American yard after competitive bidding, and would turn it over to the operator on completion at cost less the subsidy granted. But the initial payments need be only 25% of the construction cost, the remaining part becoming a loan to be paid in 20 years at 3½% interest.

Likewise, the Commission might grant an operating differential subsidy to an operator. This subsidy would apply to the costs of specific voyages, and might not increase the difference between the cost of operation under the American and that of the foreign competitors on particular route. In the event of aids granted by foreign nations to their operators, the Commission might, with the consent of the Secretary of State, grant a countervailing subsidy. Subsidies were to be confined entirely to vessels engaged only in foreign trade, on routes considered by the Commission to be essential to the proper development of the foreign commerce, and operated in accordance with the conditions established by the Commission.

The 1936 Act, thus, created a wholly new merchant shipping policy. But the Maritime Commission had little time, before the advent of World War II, to test the efficacy of this Act. During the years 1936 to 1940, 134 vessels of over 1000 tons gross register were built—nearly as many as during the entire period from 1921 to 1935. Others were laid down and were already under construction when the U.S. entered the war. Many were of new and advanced designs developed by the Commission.

War Shipping Administration, 1942

The World War II brought about an unparalleled surge of ship-building, which placed the U.S. in the first position among maritime powers, possessing nearly 2/3 of world merchant tonnage and about 5-times its own prewar tonnage. Wartime construction was undertaken by the Commission. For wartime operation of the vastly expanded fleet, the War Shipping Administration was created by an executive order of February 7, 1942. The Administration acquired, by purchase or charter, all private ships and lines, and became the sole operator in foreign, coastal, and intercoastal, commerce. Towards the end of 1946, the U.S. government owned an ocean-going merchant fleet of approximately 60,000,000 dead-weight tons, including some 5000 vessels of 200 tons, or over. This represented an investment of $ 16 billion, and was over 60% of the world's total tonnage of merchant ships, as compared with less than 12,000,000 dead-weight tons, or 15% of the world's total, in 1939. The functions exercised by War Shipping Administration were transferred back to the Maritime Commission in 1946. The Maritime Commission, however, was abolished in 1950: its functions being transferred to a Federal Maritime Board in the Department of Commerce.

From a balance of payments point of view, transportation has become a sizeable credit item in the U.S. balance of payments, as contrasted with the debit balances prevailing in former years. Inspite of this enormous and lop-sided growth of American shipping, there was little reason to suppose that there had been any fundamental improvement in the economic capacity of American merchant marine to compete in world trade on an unsubsidized private enterprise basis. National defense considerations, and the private interests of ship-builders, ship-operators, and organized labour mingled to perpetuate a government policy of subsidy and protection.

AIR TRANSPORTATION

Air transport, the newest of the several forms available to man, is also the most rapidly developing, the most challenging, and the most charged with the possibility of affecting far reaching changes in cultural and economic life. More than any other form, it annihilates distance in terms of time and brings the world closer together. It is, no doubt, merely on the threshold of its development.

World War I gave a tremendous impetus to aviation. So important were airplanes as weapons of warfare that the belligerent countries bent every effort toward their construction and perfection. It has been said that more technical progress was made during four years of conflict than would have been made in 15 normal years. By the time the war was over, a new industry had been born, surplus airplanes were available, and a corps of fliers had been trained. Out of this favourable setting, grew commercial aviation. Much of the credit for commercial aviation development must be given to the Post Office Department. The liaison between this agency and air transportation was a natural one, since it promised more expeditious handling of the mails. Experiments with airmail service were conducted as early as 1911. The Post Office Department opened an airmail route between New York and Washington in May 1918, between New York and Chicago in 1919, and between Chicago and San Francisco in 1920.

Kelly Act, 1925

The real growth of air transportation, as a private enterprise, in the United States dates back from the Kelly Act of 1925, as supplanted by Air Commerce Act of 1926. The Kelly Act authorized the Postmaster General to award contracts for the carriage of mail to private companies after competitive bidding—thus providing for an assured source of income to permit private operator to develop passenger and express business, and to build a foundation for subsequent profitable operations. The Air Commerce Act of 1926 authorized the formation of Bureau of Air Commerce in the Department of Commerce. The functions of the Bureau were comprehensive, and covered basically what are to-day the primary functions of Civil Aeronautics Authority. (Refer CAA below).

Watres Act, 1930

The Kelly Act and its system of mail payments proved unsatisfactory to both the government and the contractors. It gave way, in 1930, to the Watres Act—a statute which broke the tie between airmail revenues and contract payments, thereby eliminating a feature potentially restrictive to the development of a full-fledged subsidy system. The Act substituted 'space' for 'weight' as a basis of airmail compensation, with a maximum payment of $1.25 per plane-mile, the actual rate being determined by competitive bidding. The passage of the bill indicated Congressional intention to develop a national air transport system through the provision of public aid, for there was no relation between the mail payments and the actual mail service rendered.

The Postmaster General was given vast authority over routes, consolidations, and extensions. He was enabled to build up the small lines into more effective systems by extension and consolidation with other existing short lines. He was empowered virtually to remake the airmail route pattern as his policies might suggest. The old contract system was superseded by route certification, and the mails were to be carried at rates fixed by the Postmaster General. Direct competition on given routes, therefore, was eliminated and the key carriers were greatly strengthened. The formation of three of the great trans-continental lines—TWA, United, and American—took place largely under the auspices of Postmaster General.

Thus was the air transport net shaped during an active and important period of its development under a law, which was an important piece of regulatory legislation, as well as authority for a developmental subsidy through mail payments. The administration of this Act and coincident events led up to the precipitate cancellation of all airmail contracts on February 9, 1934, and led to the passage of Air Mail Act of 1934.

Air Mail Act, 1934

The Act marked the return to competitive bidding for carriage, as a result of allegations of fraudulent collusion between the Postmaster General and the operators in the assignment of contracts and payments, under the Watres Act. By denying mail contracts to operators involved in joint ownership with manufacturing firms, the Act of 1934 broke holding companies and left the operators independent of manufacturers. The use of space method of mail payments, under the Watres Act, was perpetuated, in part, in the new Act by using a base rate for all loads under 300 pounds, with payment by weight for heavier loads. No carrier might receive more than three contracts, of which only one might relate to a primary route. Merger of parallel routes was prohibited. Extensions, which the Postmaster General might grant, were limited to one for each company, and that not to exceed 100 miles.

The years from 1934 to 1938 witnessed a rapid advance in traffic, the average increase in the number of passengers being 300,000 per annum. Nevertheless, the industry did not prosper. Much of the difficulty was attributable to the divided control provided by the Act of 1934. Under its terms, the Interstate Commerce Commission determined mail compensation, the Postmaster General controlled routes and mail contracts, and the Bureau of Air Commerce administered safety regulations. As a result of unsatisfactory conditions, the industry pressed for new legislation. Congress passed the Civil Aeronautics Act of 1938, which provided for unified control, and took the last step toward outright subsidy, by basing mail payments primarily upon the need of the carriers for revenue.

Civil Aeronautics Act, 1938

The Civil Aeronautics Act, which became effective on August 22, 1938, created a new 3-part administrative organization of quite novel type. Within it, functions and authority were divided between Civil Aeronautics Authority, Administrator, and Air Safety Board. Economic regulation of the quasi-legislative and -judicial type was vested in the Civil Aeronautics Authority—including control entry, rate regulation, supervision of interlocking arrangements in the control of aviation enterprises, and prescription of safety regulations. Later, it was given also the administration of the Civilian Pilot Training Act of 1939. The Administrator was charged with the establishment, maintenance, and supervision of the Federal airways system: promotion of civil aviation at home and abroad: and carrying forward of developmental and research work. He was admonished to co-operate with the Authority. The Air Safety Board was expected to investigate and report accidents impartially to the public, as well as to recommend to the Authority rules and regulations designed to prevent similar occurrences in the future.

Although, to all outward appearances, the administrative structure established by the 1938 Act was functioning well, it was superseded in less than two years' experience, when Reorganization Plans No. 3 and No. 4 were sent by the President to Congress, effective June 30, 1940. Replacing the trifurcated independent organization of 1938, was a twofold organization, comprising the Civil Aeronautics Administration in the Department of Commerce, and a Civil Aeronautics Board, which, for housekeeping and budgetary purposes, was placed within the Department of Commerce, although retaining complete independence in respect to its regulatory work. Air Safety Board was merged with the Civil Aeronautics Board. The Civil Aeronautics Authority is the collective overall name for the two agencies.

The Civil Aeronautics Administration is a State unit under direct supervision of the Secretary of Commerce. It provides, maintains, operates, and develops airways system —including its navigation aids and air traffic control: carries out Federal aid airport programme: issues airworthy certificates to aircrafts: examines and registers pilots: inspects and certifies flying schools, aircraft factories, and service stations: supervises Weather Bureau: administers all safety rules and regulations: and promotes aviation research. The Civil Aeronautics Board is a quasi-legislative and -judicial body. It grants or denies certificates of public convenience and necessity: controls rates of pay for the interstate transportation of passengers, mails, and goods: promotes civil air regulations: sets standards of operation and service: and generally controls aeronautics policy. These powers are legislative in nature. The Safety Board investigates civil aircraft accidents: and the Board, in the exercise of its judicial function, makes final disposition of alleged infractions of its regulations.

Progress

Commercial transportation by air has come of age. It has emerged from the infant-industry stage. In 1946, the American-certified air carriers attained a new peak in performance and more firmly established themselves as one of the major transport services. They led the world in plane mileage flown and in volume of traffic. Between 1941-46, route mileage increased from 46,000 to 77,000. This increase was achieved by fairly steady advance: since World War II, the increase being 90% between 1946-50. In the single year 1947, 38000 miles were added—about as many as in the entire network in 1938. By March 1949, scheduled air services reached over 400 cities of the country. In addition to the 147,000 miles of domestic routes operated in 1950, 14 U.S.

flag lines were conducting far-flung international operations over 210,000 miles of routes. In 1950, the domestic segment of the airway industry embraced 16 trunk lines, 4 specialized cargo carriers, and 20 feeder lines.

Air transport, probably more than any other transportation agency, has been created by, and subsists upon, the government. Federal, State, and municipal governments have provided services and facilities to such an extent that the major airline function consists of furnishing and flying the airplanes, soliciting and handling of passengers, and loading-unloading mail and express delivered to them at airports. The airlines, thus, pay nothing for the use of Federal airways controlled and operated by Civil Aeronautics Administration, or for the aids to air navigation, or signal and traffic control. These services cost Federal taxpayers, ending June 30, 1947, approximately $ 63.2 million, made up of $ 54.6 million by the Civil Aeronautics Administration and $ 8.6 million by the Weather Bureau.

The industry is dominated by four lines—United Airlines, American Airlines, Trans-World Airlines, and Eastern Airlines. These carriers, in 1949, accounted for 70% of the operating revenues, and 73% of the revenue ton-miles realized by all trunk lines. The first three carriers mentioned are trans-continental lines, enjoying the advantage of following the main east-west traffic flow of the country. All have an eastern terminus in New York City.

FEATURES OF AMERICAN ECONOMY

If one steps back for a general look at the entire field of government and business, he sees a more complicated picture than he first might have expected. To begin with, he sees intermingled throughout the economy four basic patterns:

1. **Public ownership and public operation**, illustrated by the postal service and by a long list of government corporations—like Reconstruction Finance Corporation, Inland Waterways Corporation, and the Tennessee Valley Authority.

2. **Public ownership and private operation**, less common but illustrated by publicly-built and -owned munitions plants operated by private companies during World War II.

3. **Private Ownership and private operation**, illustrated by the railroads and most other utilities, most banking, oil production, steel and textile manufacturing, and most life and fire insurance.
4. **Private ownership and public operation**, as in the Federal Reserve System.

He finds further that while public ownership and operation have been on the increase sufficiently to cause some people worry over a possible trend towards Socialism, there is far more private and far less public economic enterprise than in other major country. In particular, he notes the contrast with not only the totalitarian U.S.S.R. with its collectivization of virtually all industry and business: but even with democratic Great Britain, which, under a socialist Labour Government since 1945, has seen the coal, transportation, gas and electric, and other top industries 'nationalized'. Finally, he observes the inevitable corollary of penchant for private ownership and management—namely heavy reliance upon government regulation of privately-owned and -operated business organizations and procedures.

Broadly, public-ownership and -operation is the European way: private-ownership and -operation, with public regulation, is the American way. In a country like Great Britain, there is comparatively little regulation of private enterprise (outside the minor rules on sanitation and the like) : In America, business and industry are confronted with public regulation of rates, services, finances, hours, and business practices at almost every turn.

PART TWO

ENGLAND

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AGRICULTURAL POLICY

Britain, in the years before the World War I, had been importing 4/5 of her wheat supplies, and 2/5 of her meat supplies: while the greater part of supplies of milk and vegetables (including potatoes) was produced at home. During the first two years of war, no special steps were taken to increase the home production of food, beyond extending the provisions of allotments and advising farmers to increase the wheat acreage. But as the submarine campaign became more deadly, and shipping losses began to increase, an urgent need for the home production of food arose. In December 1916, therefore, a food production policy was launched with the object of extending arable acreage.

Prior to this, a War Agricultural Committee had been established, in 1915, to organise the supply of agricultural labour, fertilizers, machinery, feeding stuffs, and the possibilities of increasing the output of food. This Committee was required to set up, in each county, an Executive Committee with extensive powers. It could issue instructions to farmers concerning the crops they might grow, and could require them to plough up grass land. It was authorized to undertake manuring, to supply fertilizers at cost price, and could require farmers to use more manure on their land. It was empowered to take over uncultivated land: and either farm itself or arrange for some competent farmer to cultivate it. At the same time, a central Food Production Department was formed to administer the government's tillage policy. Besides setting the pace for the Executive Committee by allotting quotas of the increased arable acreage, to be secured for the harvest of 1918, this Department became the central source of supply for the agricultural machinery, fertilizers, seeds, and other farm requirements.

Minimum Wages and Prices

Farmers could not be expected to break up pastures unless they were assured that the resulting grain crop would be remunerative. The Corn Production Act was passed in 1917 with this end in view. The Act guaranteed certain minimum prices for wheat and oats. Landlords were prohibited to take advantage of these guarantees by raising rents.

Agricultural workers were assured of certain minimum wages. A Central Wage Board was instituted to fix legal minimum wages. This emergency measure was followed by another ambitious farm legislation—the Agriculture Act of 1920. Under this Act, the farmers were guaranteed certain minimum prices for their wheat and oats, subject to revision in each year by a Commission according to changes in cost of production. The machinery, set up under previous Act to fix legal minimum agricultural wages, was retained. The law relating to tenant was amended in favour of tenant: any tenant turned out of a holding by his landlord, unless on account of bad farming, now became entitled to compensation for disturbance. This compensation need not be less than one year's rent, and not more than two. Before the Act came into operation, the agricultural prices fell considerably—e.g. the prices of wheat and oats went down as much as 50% between 1920-22. The provisions of this Act were, therefore, swept away by the Corn Production (Repeal) Act of 1921. For the time being, the policy of Laissez Faire, in relation to agriculture, was largely resorted.

Agricultural Credit

In Britain, two Acts have been passed, in 1920's, to meet the credit requirements of farmers. The first, the Agricultural Credit Act of 1923, authorized the Public Works Loan Commissioners to make long-term loans to farmers, who had purchased their land while the Corn Production Act was in force (April 1917 to June 1921). This facility was quickly used. The Act also made provision for short-term credit on the following lines: The government was to advance funds to agricultural credit societies at the rate of £ 1 for every £1 share on which Sh. 5 had been paid. Apathy on the part of British farmers rendered this provision of the Act a dead letter. The second, the Agricultural Credit Act of 1928 sought to make the British joint stock banks the principal channel through which farmers could obtain their credit requirements. The Act established the Agricultural Mortgage Corporation, whose share capital of £650,000 is held by the Banks of England and the principal joint stock banks. The Treasury advanced, free of interest, a sum equal to Corporation's share capital, and contributes £10,000 yearly towards expenses. Loans on mortgage are made for periods upto 60 years: application for loan being submitted through joint stock banks. This credit facility was extensively utilized by farmers. The Act also authorized farmers to obtain short-term loans from joint stock banks on the security of fixed or floating charges on farm assets. Yet very little use has so far been made of this new facility: lack of understanding the 'chattel' mortgage, and a preference for trademen's credit are mainly responsible.

Cooperative Marketing

Co-operative marketing in England and Wales occupies a comparatively insignificant position in the total volume of agricultural trade, and has made but little contribution to the marketing organization of the country as a whole. In the year 1900, the Agricultural Organization Society was formed, and, with the aid of a parallel Scottish Society founded in 1905, led the movement for the execution of co-operation in agriculture until 1923, when its functions were taken over by the National Farmers' Union. The main reasons for the backwardness of agricultural co-operation, in comparison with the continental movement, are three. First, British farmers have been less sorely afflicted by depressions than continental farmers, and have not therefore been compelled to resort to co-operation as a means of survival. Second, the fact that there is little export of British agricultural produce, which is not marketed through a few principal centres. Third, the individualism of most British farmers and their tendency to regard co-operative societies as a means of disposing produce of poorer quality, the better being probably marketed. The number of agricultural co-operative societies increased from 381 in 1913 to 514 in 1936.

State Marketing Schemes

In the British economic history, the 1930's has been remarkable, as it marked the substitution of a positive State policy in relation to agriculture for the predominantly Laissez Faire view, that prevailed from 1846 down to 1932. The New Policy of agricultural planning is intended to achieve a variety of ends. It aims at making British agriculture both more profitable and less subject to fluctuations of economic prosperity, as well as reducing British dependence on imported food supplies and procuring of the cheapest possible supplies of food. Besides these economic motives, the New Policy has political objectives too. In order to strengthen economic ties between the constituent parts of the British Empire, agricultural imports have been regulated by tariffs or quotas, so as to give preferential treatment to the Dominions. These aims have been achieved by marketing schemes and subsidy policy.

The most thorough-going form of planning is provided for by the Agricultural Marketing Act of 1931, which authorized the establishment of a compulsory scheme for controlling the marketing of any agricultural product, provided that 2/3 of the producers concerned, who must also be responsible for 2/3 of the productive capacity, voted in favour of the scheme. This Act, however, made no provision for the regulation of imports or total home sales. This defect was removed by the second Agricultural Marketing Act of 1932. Under the Acts together, the Marketing Boards, elected by producers, may exercise very wide powers—including buying, selling, processing, quantity regulation, price fixation, grading, marking, packing, and transport of a product. On the eye of World War II, marketing schemes were set up for hops, potatoes, pigs-bacon, and milk.

Hops Marketing Board: Aided by a 50% ad valorem tariff, and regulating production by allocating quotas to growers, this Board is the sole agency through which hops can be marketed. In 1934, an agreement was reached between the Board and the Brewers' Society, whereby the selling average price for hops, sold by the Board, was fixed for a period of 5 years.

Potato Marketing Board: This Board aims at maintaining remunerative prices by regulating the quantity of potatoes released for sale. Overproduction is discouraged by allotting basic acreages to registered growers, and by making a levy for any additions. Since 1934, import quotas have been introduced.

Pigs-Bacon Marketing Board: This Board consists of the producers and distributors of pigs, and is in the horns of dilemma. If the bacon-pigs prices are fixed low enough to enable curers to earn reasonable profits, pigs are diverted by farmers to the alternative pork market, where prices are uncontrolled. The supply of bacon-pigs, then, falls short of the curers' requirements. On the other hand, if attractively high prices are fixed for bacon-pigs, the curers are likely to be involved in losses. This actually happened in 1933. These difficulties came to its climax in 1936, when the Board declared void the contracts for 1937, as the producers contracted to deliver less quantity of pigs, compared with the minimum required by the curers. The scheme remained in abeyance for 2 years: but was reorganized in 1939.

Milk Marketing Board: This Board represents farmers. It is empowered to fix the terms of contract between producers and distributors, and the minimum re-sale price for distributors. The differentiation of manufacturing and liquid prices remained, but, by means of pooling agreements, the same average price is paid to all farmers in the pool area, whatever the purpose for which the milk is used. This policy encouraged greatly to increase the output of milk. The Board, therefore, turned to the manufacturing market for solution. As a result, manufacturing milk prices suffered, and the government had to assist the industry by guaranteeing minimum prices. In 1934, the Milk Marketing Act provided for advances to the Board to fill the gap between the actual manufacturing prices and the standard prices.

Subsidies

Sugar: Since 1934, the policy of subsidy to sugar industry has been continued. In 1935, the Sugar Industry Reorganization Act instituted a Sugar Commission, which is responsible for determining the rate of subsidy, and for supervising the fixation of contract prices of sugar-beet. The Act also provided for the amalgamation of all sugar factories into a semi-public undertaking—the British Sugar Corporation—3 directors of which represent the government.

Wheat: Under the Wheat Act of 1934, a subsidy was paid to bridge the gap between average sale price of wheat in a given year and the standard price. This subsidy was to be provided by a levy on all flour delivered for home consumption, the levy being passed on to consumers in the form of higher prices for flour and bread.

Oats-Barley: The growers of these cereals received government assistance in 1937 under the Agriculture Act, which provided deficiency payments, when the market price of oats dropped below a certain figure. In 1939, the government announced a more generous subsidy.

Livestock: Under the Ottawa Agreement of 1932, the imports of frozen beef, mutton, and lamb from foreign countries were reduced by more than 1/3. Moreover, in 1934, the Cattle Industry Act provided for the payment of subsidy for live animal and for carcasses. In addition, the Livestock Industry Act of 1934 differentiated the rates of subsidy between homebread and imported animals, and between animals of different quality. Another measure in 1939 guaranteed minimum price for sheep.

Agriculture Act, 1947

Britain's postwar agricultural policy is embodied in the Agriculture Act of 1947, which aims at a well-balanced system not only in the country as a whole, but in each individual farm. Plans were made, in 1947, with the aim of securing, by 1952, an increase in the net value of annual agricultural output to about 50% above the prewar level. Britain, with her population of 50 million, however, remains a food importing country. Before World War II, she produced about 31% of her food (in terms of calories of human consumption) but, by 1950, this had risen to 40%. Imports of food and feeding-stuffs accounted for 45% by value of total imports prewar, and about 40% in 1950. British postwar agricultural policy has been shaped by the following measures:

Marketing Schemes: A further Agricultural Marketing Act was passed in 1949, which gave Ministers direct control and representation upon Marketing Boards insituted in 1930's, and extended the powers of Boards to provide marketing requisites and services for registered producers. Provision was made for amendments to existing schemes. Marketing Boards for wool, tomatoes, and cucumbers have since been established.

Guaranteed Prices: The Ministry of Food buys most of the output of British farmers at fixed prices, and through various channels resells it to consumers at prices designed to hold the cost of living steady at a comparatively low figure, the difference being met by means of subsidies. These are subsidies to the consumer rather than to the farmer, but, at the same time they benefit the farmer by widening the market for this produce. These consumer subsidies amounted, in 1950-51, to £ 400.3 million, of which £ 246 million were paid on home-produced food.

Subsidies and Grants: There are direct agricultural subsidies such as those for hill sheep and hill cattle, and for steer calves reared to the age of 1 year: grants towards the cost of field drainage, ditching schemes, and farm water supplies: grants for the improvement of stock-rearing land in hill and upland districts for increasing food production on marginal land: subsidies for livestock improvement, and for the supply of agricultural lime at half cost: and grants to encourage the use of fertilizers, after the ploughing up of grassland of at least 4 years' standing. The Agriculture (Fertilizers) Bill of 1952 gives the government the power to pay up to half the cost to farmers of certain fertilizers for 5 years from July 1951.

Price Fixing: Four aims of price fixing are: to give farmers a reasonable return, to encourage production of crops and livestock products required by the nation, to ensure a sufficiency of a product at all times of year by seasonal variation of the price (e.g. winter milk), and to discourage relatively wasteful forms of production (e.g. overfat livestock). Prices have been fixed annually, since February 1945, for almost the whole output of agriculture, excluding fruits and vegetable crops. The Agriculture Act of 1947 guarantees to the farmer an adequate price, and a certain market for his principal products: fat cattle, fat sheep, fat pigs, milk, eggs, wheat, barley, oats, rye, potatoes, and sugar-beet. The Act also provides for special (in addition to annual) price reviews, when exceptional cost increases (e.g. wages) take place.

Agricultural Executive Committee: The agricultural policy is carried out under the Minister of Agriculture through County Agricultural Executive Committees, set up under the Agriculture Act of 1947, with the duty of promoting agricultural development and efficiency. These Committees, appointed by the Minister, include representatives of landowners, farmers, and farm workers. These Committees are represented in areas within the county by district Committees.

Agricultural Land Commission: This Commission was set up under the Agriculture Act of 1947. It manages land placed under its control by the Minister of Agriculture, and advises him on management matters. An important part of the Commission's duties is the development of land, acquired by the Minister under the Act on the grounds that full and efficient agricultural use cannot be made of it without the provision of equipment, or the carrying out of work which could only reasonably be expected to be undertaken by the State.

Agricultural Land Service: The main duties of this Service (formed in 1948) are to act as agent for the Agricultural Land Commission, giving technical advice on the acquisition and management of agricultural land: on measures to ensure good estate management: on the agricultural aspects of planning, and the release of agricultural land for other development, including afforestation: on the provision and management of small holdings by small holdings authorities: and on the provision of allotments by local authorities.

Security of Tenant: About 2/3 of the occupiers of farms in England and Wales are tenants or mainly tenants (renting about 3/4 of their land). Agricultural Holdings Act of 1923 required at least 12 months notice to be given to quit an agricultural holding, and gave tenant a right to compensation for disturbance on leaving his holding. The Agricultural Holdings Act of 1948 gave the tenant the right, in normal circumstances, to have the matter referred to the County Agricultural Executive Committee (acting for the Minister). Either tenant or landlord then could appeal against the Committee's decision to an Agricultural Land Tribunal, an independent body, whose decision is final. Moreover, under the Agriculture Act of 1947, the Minister of Agriculture has the power to place under supervision an owner or occupier considered guilty of bad estate management or bad husbandry. This power he has delegated to County Agricultural Executive Committees. If the owner or occupier fails to show satisfactory improvement in his standard of management or of husbandry after 12 months under supervision, or earlier if he has failed to comply with a direction, he may be dispossessed.

Thus, the Agriculture Act of 1947 was one of the most ambitious and progressive measures of the Labour Government.

EXTERNAL RECOVERY POLICY
1930's

British industrial supremacy, during the 19th century, had been founded largely on her advantageous position as a supplier of the two basic raw materials of the 19th century—coal and iron, and of skilled labour. The technological changes, since the beginning of this century, tended to diminish these advantages. Coal industry was faced with increasing rivalry from new power resources—namely, oil and hydro-electric power: steel industry began to feel the competition of light metals: and mechanization had increased the competitive power of countries with ample supply of cheap unskilled and semi-skilled labour, such as Japan.

Economic development in the chief British export markets increased the difficulties of the British export trades. During the World War I, the expense and difficulty of obtaining British goods had stimulated most of the British Dominions and South America to establish and expand their own industries: and after the war, they protected them with tariffs. This applied specially to the British textile industries. The exporting districts of the British coal industry were almost continuously depressed, with only a short interval of prosperity during the occupation of Ruhr, during 1923-24. The iron and steel industry, too, suffered both from the decline in overseas demand, and from the subsidized competition of other exporting countries.

The root of the trouble, therefore, was that the general trends of world economic and technological development operated against a revival of Britain's staple exports and chief industries. The only remedy was an adjustment of the British economy to the changed conditions of the postwar world.

1. Depreciation of Pound

Britain, in the year 1925, returned to the Gold Standard at the old parity, largely on grounds of prestige, and in the interests of city and British overseas investors. The resulting overvaluation of the Pound greatly increased the price difficulties, from which all industrial exports were suffering, quite apart from the depressing effect on industry, and the standard of living of the deflationary policy it entailed. It increased the adverse balance of trade, and maintained a constant pressure on the gold reserves of the Bank of England.

The world depression intensified the very difficulties under which Britain had been labouring during most of the preceding decade—i.e. an increasing import surplus and adverse balance of trade, depression and unemployment in export industries, and increasing pressure on her gold and foreign exchange reserves. Between 1929 and 1931, the value of British merchandize exports fell by nearly half, and invisible exports—mainly shipping income, and income from overseas investments—by nearly 40%. At the same time, the volume of imports hardly fell: with the result that, inspite of a large improvement in British terms of trade, due to the disproportionate fall in prices of her foodstuffs and raw material imports, the British balance of payments on current account deteriorated from a surplus of over £100 million in 1929, to a deficit of over £100 million in 1931.

The panic flight of capital from London during July, August, and September—which followed the Austrian and German financial crisis, and the forecast in Britain of a substanital Budget deficit—rapidly exhausted the gold and foreign exchange reserves of the Bank of England, and utterly defeated the last minute efforts to maintain the Gold Standard. The Pound promptly depreciated by 20%, and, before the end of the year, by another 10% of its former gold value.

For the remainder of the decade, the Pound was operated as a managed currency. Unlike the Dollar after 1934, it was not stabilized on a gold basis. Excessive exchange fluctuations, however, were prevented by the establishment, in 1932, of an Exchange Equalization Account, which was armed with £150 million (augmented by a further £200 million in April 1933, and by yet another £ 200 million in June 1937) in order to smooth out short-term fluctuations in the exchange rates with the Dollar and Franc without, on the other hand, preventing long-term trends from taking their effect. As long as France remained on the Gold Standard, the British and American Exchange Equalization Accounts were able to operate on the Franc. When, in 1936, the Franc too at last succumbed, a Tripartite Monetary Agreement ensured an alternative method of stabilizing exchange rates by co-operation between the Exchange Equalization Accounts of the three States.

There can be no doubt that the abandonment of the Gold Standard, and the depreciation of the Pound constituted, in fact, the first important step towards helping Great Britain out of the depression. In the first place, the 30% reduction in the value of the Pound gave an indiscriminate encouragement to British exports, while at the same time exercising a protective effect on the British home market. Whereas until 1931, the overvaluation of the Pound had handicapped the British exports, British exporters enjoyed, for at least two years after 1931, a definite competitive advantage in world markets. The abandonment of the Gold Standard, thus, at a crucial moment during the depression, gave a valuable stimulus to economic activity in Britain. Britain, moreover, was in the unique position of being able to obtain this advantage without any worsening in her terms of trade, which a devaluation normally involved.

Moreover, the policy of allowing Sterling to depreciate by removing the immediate pressure on the British balance of payments, placed the British government in a position to pursue a far more independent internal policy than would have been possible under the Gold Standard rules. In practice, no advantage was taken of this opportunity as far as Budget policy was concerned. But the return flow of foreign capital, which immediately followed the departure from gold, as well as the subsequent accumulation of gold by the Exchange Equalization Account (part of which was added at intervals to the active gold reserves of the Bank of England) paved the way for the adoption of a vigorous policy of Cheap Money.

2. Protection and Imperial Preference

The abandonment of Gold Standard was followed, six months later, by a sound spectacular change in British policy—the final abandonment of Free Trade in favour of a general tariff and Imperial Preference. Mr. Chamberlain introducing the Import Duties Bill to Parliament, in February 1932, managed to adduce seven reasons in its favour: its purpose was to correct the balance of payments, to obtain fresh revenue, to ensure against a rise in the cost of living, to decrease unemployment, to render production and distribution more efficient, to facilitate negotiations with foreign countries over tariffs, and to consolidate Imperial Preference.

In February 1932, the Import Duties Act laid the basis for the new tariff structure. The emergency duties were replaced by a general 10% ad valorem tariff on all imports, except those on a free list, containing most raw materials and foodstuffs. The Act, which left all other existing duties in being, further empowered the government to impose higher duties on the recommendation of an Import Duties Advisory Committee. In practice, most manufactured imports were subjected to 20% duties, but higher rates than these were imposed on a number of commodities, notably iron and steel, home producers of which were considered to have a specially strong case for protection.

The Act did not apply to Empire products. It, thus, laid down the basis for the system of Imperial Preference which was consolidated, six months later, by the agreements concluded at Ottawa between the U.K. and the British Dominions, and for which the general tariff was partly designed to pave the way. In Ottawa Agreement, United Kingdom, in return for minor tariff concessions, and increased preference for British goods in Dominion markets (most of which were offered by increases in Dominion tariff on foreign, rather than by reduction of duties on British, imports), promised continued free entry into the British market to all Dominion products (except meat, with regard to which Empire producers were to be given an expanding share of British imports under a quota system), and guaranteed margins of preference, which were made effective by the imposition of new or additional Ottawa duties on a number of foreign foodstuffs—including, among others, wheat, maize, butter, cheese, and other dairy products.

The system of Imperial Preference was extended to the Crown Colonies in 1933. The Import Duties Act of 1932 had granted preference to colonial goods in the British market. The colonial governments were now 'invited' by the British government to grant preference to British empire goods. In nearly all the colonies, the grant of preference took the form of increased tariff on foreign goods, accompanied by rebates on empire products. The tariffs, which amounted to nearly 100% ad valorem on some goods—such as rubber-soled boots and shoes, and 75% on cotton piece goods, were followed, in 1934, by a system of import quotas in all the colonies, except where international conventions or the interests of the entrepot trade stood in the way. (The quota system, as also many of the tariffs, were principally designed to keep out cheap Japanese textiles, which had begun to oust the more expensive Lancashire products from the colonial markets).

3. Protection to Agriculture

British agriculture had suffered a long and continuous decline since the 1870's of the last century: it was the price paid by Britain for her industrial supremacy, and policy of cheap food for her industrial population. During the postwar years, falling world prices and high comparative costs hastened the decline. In 1931, the acreage under wheat was the lowest on record. The depression gave a further blow to British agriculture. The slump in world prices fell most heavily on the high-cost producer in the one remaining free market.

The new tariffs on agricultural products which had been introduced in 1932, and the Ottawa import quotas on foreign meat, had served the purpose of substituting empire imports for foreign imports, and were of little benefit to the British producer. In 1933, import quota schemes were introduced which were designed to provide the home producers with a practically guaranteed market for an expanding output, though even here the quota normally favoured the empire exporter. By voluntary agreements with the foreign producers, and later by compulsory quotas, foreign (especially Danish) imports of bacon were severely curtailed. The British farmer reaped the main benefit from the reduction imports from Denmark. The bacon schemes were followed, in 1932-34, by similar schemes, limiting, by voluntary agreement or compulsion, imports of dairy products, eggs, poultry, potatoes, and sea fish.

Protection from foreign competition was coupled with internal measures of assistance to agriculture. The Agricultural Marketing Act provided for the organization of marketing schemes designed to improve efficiency of production and maintain agricultural prices. The most important of these schemes, that for milk, was in essence a state organised discriminating monopoly based on the maintenance of a relatively high price for liquid milk, part of the proceeds from the sale of which was used to subsidize the producers of milk for domestic processing, who had to compete with cheap empire imports of dairy products.

A similar concealed subsidy, the cost of which in this case was shared by the domestic consumer of bread and the foreign export of wheat, underlay the Wheat Fund set up in 1932 to encourage wheat production. Some other branches of agriculture received direct government subsidies—such as the sugar industry, which, between 1924 and 1935, was paid £30 million. Further, subsidies were paid at various times to the livestock industry, to producers of oats and barley, and to herring fishing. Lastly, some producers—such as those of potatoes and hops—were assisted by legal restrictions on home production, and others again by legal minimum prices.

This comprehensive system of assistance, on the whole, succeeded in restoring a fair degree of prosperity to most branches of British agriculture. Output rose by 1/6, and prices of nearly all products were considerably higher by 1937.

4. Ban on Foreign Lending

The third important change in British external policy, during the 1930's, was the virtual discontinuation of foreign investment after 1931. Before the World War I, Great Britain had been, by far, the leading international creditor country. Almost the whole of the annual surplus had been regularly lent and invested overseas. The value of her foreign assets was about £4000 million, yielding some £200 million a year. The war had fundamentally changed her position. The need for development investment in large oversea primary producing areas had greatly diminished, and the capital needs of these countries were increasingly met out of domestic capital resources. Britain herself had become a large-scale debtor to the U.S.A., who, in turn, had assumed the function of the leading lender nation. After the war, Britain had continued to lend abroad : a growing proportion of her foreign lending had taken the form of loans to foreign governments. But in 1931, British foreign lending virtually ceased. After the crisis of September 1931, a complete (though unofficial) embargo on foreign new issues was imposed for two reasons. To facilitate the internal Cheap Money policy, and to prevent pressure on the British balance of payments.

5. Export Policy

1. Bilateral Trade Agreements: Between 1932 and 1935, the British government concluded a series of bilateral trade agreements with foreign countries. The most important of these agreements were with the Argentine, the Scandinavian and Baltic States, Poland, and Russia. All these countries were in a particularly weak position because their exports to the U.K. far exceeded their imports from U.K. Some of them, moreover, had specialized in the production of certain commodities for the British market (e.g. Danish bacon, and Argentine beef) and depended on it, while themselves taking only a relatively small proportion of British exports. Great Britain, therefore, was able to obtain most of her concessions from them by mere promises not to increase duties, and not to reduce quotas. Although many concessions were made to foreign products, they were not comparable to the advantages gained by British exporters. Minor agreements were also concluded with France, Germany, and some other countries. With them, Britain enjoyed no markedly superior bargaining power, and was unable to obtain one-sided concessions. The agreement with Germany, in 1933, was actually the only instance, before the Anglo-American Trade Agreement of 1938, of substantial reductions in duties made by Britain (in return for a minimum coal quota).

2. Private International Agreements: Moreover, the government assisted British industries in various ways in the conclusion of private international agreements, either by tariff manipulation or by granting them official sanction. These agreements were of three kinds. There were, first, private purchase agreements between British exporters and foreign importers, in which the foreign importers committed themselves to purchase definite quantities of specific British products. Secondly, the British industries concluded a number of bilateral barter agreements with other industries in foreign countries. These two types of agreements did not differ,

except in scope and efficiency, from the official bilateral trade agreements, and, on a smaller scale, benefited British export trade in much the same way. Much more important than either of these was the third type—the international cartel and commodity control agreements, though most of them dealt with raw materials, and, with the important exception of iron and steel, did not directly affect U.K. trade. Their purpose was to maximize producers' earnings, either by restricting production, or by the division of markets between the producers at a fixed and agreed price level.

3. Control of Foreign Investments: British government also assisted exports by the careful control of her foreign investment activity. The object of foreign loan policy, during the 1930's, was to direct, what little foreign lending was permitted, into channels where it would directly benefit British foreign trade: while British empire borrowers were granted a fair degree of latitude in the London capital market. The only exceptions to the embargo on foreign loans were two: loans which would be spent by the borrowing country entirely on British exports (visible or invisible), and loans for the purpose of strengthening the Sterling reserves of countries within the Sterling Area.

4. Export Credits Guarantee: Further, compensation to the British export trade for the breakdown of long-term foreign investment was provided by extending the functions of the Export Credits Guarantee Department. By underwriting private commercial credits granted to foreign purchasers, it relieved the British exporters of some of the risks attending export trade in a world of unstable exchanges and exchange control, and encouraged the grant of medium-term credits for the financing of British exports.

5. Subsidies: Lastly, some of the depressed British export industries—in particular coal, cotton, and ship-building—received special government assistance in the form of subsidies, or otherwise.

6. Debt Collection

A third objective, in addition to protection and stimulation of exports, which assumed a surprising importance in British commercial policy, during this period, was debt collection. The need for this arose with the spread of exchange control over most of Europe and South America. Difficulties in obtaining free Sterling resulted in long delays in payments to British exporters, and the accumulation of substantial commercial debts to Britain in most of these countries. In addition, some of them—especially Germany and Argentina—owed large sums to British creditors in interest on British loans and direct investments. In order to secure payment of these debts, Britain, between 1933 and 1938, concluded payments and clearing agreements with many of these countries. The principle underlying all these agreements was that all or most of the Sterling proceeds of British imports from the foreign country were earmarked, in the first place, for repayment of outstanding financial and commercial debts: and, in the second place, for purchases of British exports.

INTERNAL RECOVERY POLICY
1930's

In contrast with British external policy, the internal recovery policy of the British government, during 1930's, was remarkable for its orthodoxy. The great depression did not lead to any marked increase in State interference in, or in the control of, the economic system. It was left to private enterprise, aided only by protection from foreign competition, cheap money, and minor internal measures of assistance to lift the British economy from the depression.

1. Cheap Money Policy

The most important positive contribution of internal government policy to the British recovery was the adoption of a policy of Cheap Money. The policy was first tried in 1930. The flow of funds to London, after the collapse of Wall Street boom, induced the Bank of England to reduce the Bank Rate to 3%, and early in 1931 to 2½%. But the attempt failed completely to reverse the decline, and came to a sudden end with the crisis of the summer. After the departure from gold in September 1931, a second attempt was made, and this time Cheap Money came to stay. This policy took three forms:

1. War Loan Conversion: The War Loan, which formed 1/3 of the total internal debt, and was redeemable at par between 1927 and 1947, dominated the gilt-edged market. Its

conversion from 5% to 3½% basis in the summer of 1932, therefore, was an effective method of forcing down interest rates on long-term securities, at a time when it was obviously impossible to re-invest on better terms elsewhere.

2. Cash Expansion: The conversion operation successfully completed, the government took strong and persistent action to expand the cash basis of the banks by increasing the issue of the Bank of England notes, on the basis of gold acquired by the Exchange Equalization Account and Open Market Operations. The banks were enabled to increase loans and investments, and to lower interest rates.

3. Control of New Issues: The most important part of the control of new issues was the unofficial ban on foreign lending. It served to increase the volume of capital available to British borrowers, and to keep down interest rates in Britain.

The Cheap Money Policy was extremely successful in its immediate object of forcing down interest rates available to industry, and of increasing the amount of credit. What is more important, credit was not only made cheaper, but it was also far more readily available to borrowers.

2. Subsidies and Loan Guarantees

The British government also took steps, at intervals, to assist some of the most depressed industries by means of government subsidies, loan guarantees, and measures intended to encourage internal reorganization by the industry concerned. The beneficiaries were primarily the great British export industries localized in the depressed areas—coal, cotton, and ship-building.

1. Coal Industry: The first of these to receive direct assistance had been the coal industry, which had suffered intensely from the loss of export market. Subsidies had been paid to the coal industry during the immediate postwar slump, and again in the winter preceding the General Strike. In 1928, the policy was discontinued after some £23 million had been expended, and was not renewed by the National Government, which instead continued, rather ineffectually, to encourage the owners of the industry to set their house in order. The production quota scheme of the Coal Act of 1930 was found to hamper coal exports, and had to be revised in 1934.

2. Cotton Industry: The cotton industry suffered from severe over-capitalization, as well as the loss of markets. The government, through the agency of the Bank of England, supported the policy of purchasing and scrapping redundant spindles by means, not of a direct subsidy, but, of a large loan guarantee which enabled the industry to borrow the necessary money at a low rate of interest.

3. Shipping: The shipping and ship-building industry had suffered severely during the depression. The British Shipping Act of 1935, therefore, provided for two subsidies: a tramp shipping subsidy primarily designed to raise freight rates by restricting competition for freight among tramps, and a loan to ship-builders for the building of new and modernizing of old ships, conditional upon the scrapping of old vessels. Under the first scheme £4 million were paid out: and under the second, £3½ million were advanced. By 1937, as the position of both industries had been considerably improved, subsidies were discontinued, only to be reintroduced on a large scale in 1938.

3. Deflationary Policy

The most striking fact about British internal economic policy, during the 1930's, is the fact that Britain did not resort to a policy of Budget deficit to promote internal recovery. The Labour Government, which was in office at the beginning of the depression, did make some half-hearted attempts to devise a compensatory public works policy. But planned on a totally inadequate scale, and hampered by the government's weak political position, by Treasury opposition, and of immense practical difficulties of improvising a public works programme at the last minute, the efforts amounted to little. The revelation by the May Committee, in 1931, of the prospect of Budget deficit was sufficient to put an end to these attempts.

The formation of the National Government signified a return to strict financial orthodoxy. Determined to balance the Budget at all costs, the government resorted to a policy of drastic deflation. An Economy Campaign was launched throughout the country: and an Emergency Budget, in September 1931, combined heavy increases of direct and indirect taxation, and unemployment insurance contributions, with cuts in all items of government expenditure—including expenditure on education, road fund, salaries and wages, rates of unemployment benefit, and grants to local authorities. These measures succeeded in balancing expenditure and revenue, and facilitated conversion. Business confidence was stimulated by the return of a 'sound' government with 'sound' principles of Public Finance. The depreciation of Pound relieved pressure on balance of payments. At the end of 1932, business began to revive.

The British default on war debt to the U.S.A., War Loan conversion, and the new protective duties helped to ease the financial position of the government. With the progress of recovery, the yield of taxes increased, and expenditure on unemployment relief diminished. Thus, from 1932 onwards, it was relatively easy to maintain a balanced Budget without recourse to further deflationary measures. The British national debt increased slightly from £7413 million in 1931 to £ 7,800 million in 1935. But this increase—which was mainly due to the Exchange Equalization Fund, and was largely offset by the gold acquired by the Fund—was negligible compared with the rate of increase of the national debt of U.S.A. or Germany during the same period.

Economic Recovery

The results of British external and internal economic policies, during 1930's, may be summarized as under. Her indices of economic activity were considerably ahead of those of U.S.A., France and most of other countries, and had in most respects passed the peak pre-slump levels of 1929. The volume of industrial production had risen by 50% between 1932-37, and was over 20% larger than in 1929. The number of persons employed (excluding agricultural workers) had increased from 10.2 millions in 1929, to 11.5 millions in 1937, and there had been a striking increase in labour productivity. Industrial profits were at least 10% higher than before the depression: and money wages were some 7% higher than in 1929. The national income, which had fallen during the depression to £3850 million, reached in 1937 the figure of £ 5200 million. The British economic recovery between 1932-37 was, thus, certainly remarkable.

POSTWAR ECONOMY
1945-1952

The World War II is estimated to have run down British domestic capital by about £3000 million through shipping losses, bomb damage, and arrears of industrial maintenance and replacements. It also resulted in a considerable alteration in Britain's financial and trading position in six respects. First, over £1000 million worth of oversea investments, including £ 428 million in North America, were sold to pay for war supplies. The income from these had paid for a substantial part of prewar imports into the United Kingdom. Second, new external debts, totalling £3000 million, were accumulated. Third, the price of imported raw materials rose sharply after the war, and by 1948 about 1/5 more goods had to be exported than in 1938 to bring the same quantity of imports. Fourth, exports by 1944, fell to less than 1/3 of their 1938 value. Fifth, the real value of Britain's gold and Dollar reserves was reduced to about 1/2 the prewar level. Sixth, the physical destruction of the war led to an increased dependence on the part of Britain, the rest of Sterling Area, and many other countries on supplies of all kinds from North America. Dollar earnings by non-Dollar countries were inadequate to pay for these supplies.

The volume of industrial production, at the end of 1950, was 50% more than in 1946, and probably 40% more than in 1937, the most prosperous prewar year. These increases resulted largely from the expansion of the newer branches of engineering, vehicles, and chemical industries, with their high and rising output per man. The structure of industry also changed between 1939 and 1950, as a number of industrial and commercial enterprises passed into public ownership. In the middle of 1950, 22½% of persons in civil employment were engaged either in local and central government, or in public undertakings. About 70% of the public utilities fell in the public sector, while 96% of manufacturing and building fell in private sector.

External Trade

The expansion of production and investment has required the importation of a large volume of raw materials and some capital goods, while imports of food and other necessaries have had to be maintained. To pay for these imports has required a much larger volume of exports than before the war, both because of the decline in net income from oversea investments, and because of the rise in the price of food and raw materials relative to manufactured goods. Two separate and sometimes conflicting considerations have had to be taken into account in relation to Britain's oversea trade and payments. First, total British oversea earnings have had to be increased greatly to finance total imports. Second, sufficient Dollars have had to be earned by the Sterling Area to buy those essential goods which had to be bought from North and Central America.

Immediately after the war, both these objectives were clearly unattainable, and the drain on Britain's remaining oversea assets, and gold and Dollar reserves would have been disastrous, had not the U.S. and Canada come to her with Dollar loans to the value of $3750 million and Canadian $1250 million. Between 1948 and 1950, Britain received further assistance from the U.S. in the form of grants to the value of $2369 million, and loans to the value of $336.9 million, under the European Recovery Programme. Against this, however, must be set the financial aid provided by Britain to foreign countries and international agencies. From the end of the war to June 1951, this amounted to rather over £600 million in loans and recoverable aid, and to nearly £700 million in gifts. By 1950, Britain had a favourable balance on current account in her external trade as a whole, and the Sterling Area had become a net earner of gold and Dollars. Aid to Britain under in ERP was, therefore, suspended.

These achievements were, in part, the result of a very large increase in British exports, and of action taken by Britain and other countries of the Sterling Area to divert their exports of food and raw materials from Dollar to non-Dollar sources, and to increase their exports to the Dollar Area. They were also assisted by the revival of demand for primary products by the U.S. from the end of 1949, and by the devaluation of the Pound Sterling relative to the Dollar, in September 1949, which helped to make Sterling Area products more competitive.

Problems of Rearmament

During 1951, the balance of payments position again deteriorated as a result of a number of new factors, mainly attributable to the rearmament programmes of Britain and other North Atlantic Treaty Powers. In the first half of the year, there was a general deficit on current transactions of £122 million, chiefly owing to sharp increases in the prices of imported raw materials, and to some increase in the total volume of imports, but the gold and Dollar reserves increased by £ 203 million, largely because of the high Dollar earnings of raw materials exported from the rest of the Sterling Area. During the second half of the year, however, because of a substantial increase in expenditure during a period when prices, and, therefore, earnings of Sterling raw materials, were falling sharply, the whole Sterling Area was in deficit with the Dollar Area, with the European Payments Union, and with the rest of the non-Sterling world. The central gold and Dollar reserves fell by nearly £550 million within 6 months, end-June to end-December, and the U.K. total adverse balance of 'invisible' trade, for the whole of 1951, amounted to £1209.7 million.

Mr. R. A. Butler, Chancellor of the Exchequer in the new government which took office in October 1951, reviewed this economic situation in the House of Commons on November 7, 1951. He estimated that external factors—such as the worsening of the terms of trade during the preceding 18 months, the additional imports needed for the rearmament programme, and the loss of the oil refinery at Abadan in Persia—had combined to make the annual rate of U.K. external expenditure about £ 600 million greater than in 1950. On the basis of existing trends and programmes, the current deficit, in 1952, would be of the order of £500 to 600 million, and the internal economy was not showing the necessary flexibility to adjust itself to new conditions.

Higher production was the only ultimate solution of the difficulties. This would take time, and immediate measures were needed to relieve the pressure. External expenditure would be reduced by some £350 million a year. This would involve cutting imports from Europe and non-Sterling countries, foregoing increases in consumption of rationed foods, and slowing down strategic stockpiling. Home investment would be reviewed, and starting dates for new building work, other than housing, would be postponed, except for specially urgent schemes. Government expenditure would be reduced, and monetary measures—including a rise in the Bank Rate to 2½%, and a reduction in the liquid assets of the banks by funding £1000 million Treasury Bills—would aim at curtailing the volume of credit. In January 1952, he announced further remedial measures—including an additional £150 million cut in imports, measures to increase export earnings, and cuts in government expenditure.

During 1952, the balance of payments position both for the U.K. and for the whole Sterling Area continued to be critical. The gold and Dollar reserves, at the end of February 1952, stood at £632 million, having fallen by £714 million since June 1951. Mr. Butler, while presenting the Budget for the financial year 1952-53, on March 11, 1952, therefore, proposed further tightening of import licensing control, so that the total effect of restrictions introduced since October 1951 would be to cut the value of import by 10% compared with their value in 1951. At the same time, he announced that the Bank Rate was raised from 2½% to 4%, as a part of a general programme to restrict credit, and make it dearer. Monetary action was expected to reinforce physical controls over the volume of investment, and this, together with cuts in government civil expenditure, and an adjustment of the defense programme, should free the additional resources required for export.

POSTWAR FOREIGN TRADE POLICY
1945-1952

British oversea markets and sources of supply are world-wide. The wealth, and very existence, of the British people has, for over a century, depended on oversea trade. British imports consist mainly of food and raw materials, raw and processed, required by British industries, though finished capital and consumer goods are also imported. British exports are preponderantly of manufactured goods: but coal, wool, and woollen waste are also important exports in normal times. For nearly 100 years, the value of goods imported into Britain has generally exceeded that of goods exported: the balance being paid for, in normal years, by net 'invisible' exports—i.e. the net receipts of interest, dividends, and profits on previous investment abroad, and income from shipping, insurance, and a variety of financial services.

Pattern of Trade

Britain's efforts, during World War II, involved a very great reduction in exports: but after the end of the war, the lost ground was regained, until, in 1950, exports were more than 4 times as great by value, and about 50% greater by volume, than in 1938. The volume of imports, in 1950, was significantly less than in prewar years.

External trade has, however, not only expanded in value and volume, but has changed its composition in terms of goods, and its distribution by countries and areas. Vehicles, including ships, have become the most valuable group of exports, while sales of machinery, engineering products, and electrical goods have also increased. The increase in exports of raw materials, between 1947-50, is largely explained by the resumption of exports of coal (reduced again in 1951 owing to shortage), and by the higher value of wool exported. The main factors in the increase in the volume of imports, since 1947, have been larger purchases of raw materials and manufactures.

A marked change in the direction of trade took place from 1947-50. Generally speaking, the effect of the change was to switch a considerable proportion of food and raw material purchases from the United States and Canada, mainly to the countries of Sterling Area, to increase exports to the Dollar Area, and to increase the volume of trade and the proportion of total trade done with Western Europe. During 1951, there was a considerable rise in the volume of imports—about 15% for the year as a whole, compared with 1950: while the volume of exports increased only slightly—about 3% in 1951.

Balance of Payments

The changes in the volume, composition, and direction of British foreign trade, since World War II, have been closely connected with balance of payments problems. During the war, Britain sacrificed most of her foreign trade, sold oversea investments and so lost an important source of invisible income, ran down capital equipment at home, and, in short, shifted the whole balance of the economy in favour of war production. Therefore, when the war ended, Britain was faced with a big task of re-equipment and rehabilitation. It was clear that she would be unable to pay her own way in her oversea dealings unless imports were cut down to a point at which economic life—dependent so much on food and raw materials from oversea—would be crippled. Until 1949, Britain ran a deficit in her balance of payments on current account with the rest of the world, the worst year being 1947 when the deficit amounted to £545 million. From then on, economic recovery was increasingly reflected in the state of Britain's oversea accounts. In 1949, there was a small surplus of £21 million, which rose to £221 million in 1950. During 1951, however, a deficit—£122 million in the first six months of the year, but rising to about £500 million for the year as a whole—reappeared following the impact of world rearmament on British economy.

Financial Aid

The wartime disruption of the economies of Europe and Asia left Britain, the Sterling Area as a whole, and most other countries dependent on North America for imports of many essential raw materials and food. In 1946 and 1947, about 1/3 of the Britain's imports (by value) came from the Dollar Area, compared with only about 1/5 in 1930's, while many of the countries of the Sterling Area, which had earned Dollar surpluses before the war, ceased to do so, and became net Dollar spenders. The prewar triangular trade pattern was no longer well balanced. But the U.S. and Canadian credits granted to Britain at the end of 1945, and North American assistance on a lesser scale to some other countries in Western Europe and elsewhere, helped to fill the gap. From 1948 to 1950, U. S. Dollars, under the European Recovery Programme, gave continued economic support directly to Britain and Europe, and indirectly to the Sterling Area and the rest of the world. From the beginning of 1946 to the end of 1950, Britain received £930 million from U.S. line of credit, £297 million from the Canadian line of credit, and £773 million under the European Recovery Programme, as loans and grants.

Against the financial aid received by Britain must be set that given by Britain to other countries. First, loans and gifts to foreign countries and international agencies. From the end of war to June 30, 1951, this amounted to over £1200 million. Second, loans and gifts to U. K. Dependencies. Between 1945 and October 31, 1951, official allocations to these territories for development, reconstruction, etc. amounted to £254 million, of which some £123 million was issued. In addition, colonial governments have raised loans on the London capital market, and substantial amounts of British private capital have moved to other parts of the Sterling Area. Third, the repayment of debt by reductions of Sterling balances held by other countries. These releases of Sterling have been the main source of external finance for a number of countries.

Devaluation

By 1948, Britain had already reduced her dependence on Dollar imports to the prewar proportion of about 1/5. This, together with increased exports to the Dollar Area, and the switching of purchases to non-Dollar sources of supply during 1948, resulted in a considerable reduction in the total gold and Dollar deficit. At the same time, Britain had a large surplus in her balance of payments with other Sterling Area countries, which, for years 1947-1949, were also deficit with Dollar Area. A severe setback took place in the second and third quarters of 1949, when a slackening of U.S. business activity brought a sharp fall in the Dollar earnings of the Sterling Area, and, in combination with other factors, resulted in a serious drain on the gold and Dollar reserves. This led to a loss of confidence in Sterling, and owing to a growing belief that the Pound would have to be devalued, and this, in turn, by encouraging the postponement of payment for goods exports by the U.K., and the short-term flow of capital from the U.K. in anticipation of devaluation, made the situation worse.

In September, the U.K. government decided that devaluation was necessary to safeguard the reserves, and on September 18, 1949, reduced the exchange value of the Pound Sterling from $4.03 to $2.80. All the countries of the Sterling Area (except Pakistan), and many other countries followed Britain's lead in devaluating their currencies against the Dollar, though not all to the same extent as Britain. The effects of devaluation were complex. On the one hand, it worsened the terms of trade: on the other, it improved the competitive position, throughout the world, of countries which had devalued their currencies, and thus gave a chance to increase their exports. There was, in fact, after devaluation, a change in the pattern of world trade, and a great improvement in the British gold and Dollar position. This change cannot, however, be attributed entirely to the effects of devaluation, and it is possible to isolate their effects from those of other powerful influences—such as the revival of boom conditions in the U.S., the intensification of U.S. stockpiling, and the general and continuing tendency of Britain and other Sterling countries to increase their production and exports, and to move towards a sounder and better balanced pattern of trade.

Intra-European Trade

After the World War, at a time when economies were disrupted by wartime destruction and dislocation of productive capacity, many other European countries, besides Britain, found it necessary to maintain a number of restrictive controls over imports and exports, and the transfers of currencies. The barriers of trade and exchange controls could, at first, be surmounted only by negotiating bilateral trade agreements, specifying the amount and type of trade to be permitted between the two countries concerned. By negotiating a number of such agreements, Britain steadily increased her trade with Europe: and by permitting the transfer of Sterling between European countries, except when such transfer was likely to lead to a loss of British gold and Dollars, Britain facilitated a certain volume of multilateral settlement between the countries of Western Europe.

One of the principal objectives of the European Recovery Programme was the liberalization of European trade and payments. As part of this programme, the Organization for European Economic Co-operation started, in October 1948, its first intra-European payments scheme, covering the period upto June 1949. This scheme was operated by the Bank of International Settlements. Its main features were—the system of 'drawing rights', whereby creditor countries in intra-European trade gave financial assistance on a bilateral basis to debtor countries, in exchange for an equivalent amount of Dollars under ERP: and the machinery for automatic offsetting of certain debits and credits between member countries. The scheme helped considerably to raise the total volume of intra-European trade, but did not radically alter the bilateral trade pattern. The second intra-European scheme, which covered the period from July 1949 to June 1950, was more flexible, and introduced a certain degree of multilateralism by making part of the drawing rights transferable. The European Payments Union, which came into operation in July 1950, marked a distinct advance. It provides for the complete offsetting of all bilateral surpluses and deficits, so that each country can trade on the basis of its net credit or debit position vis-a-vis all OEEC countries, together with the Sterling Area and the OEEC dependent territories. The net position is settled through the Union by a combination of credits and gold payments.

Complementary to these measures has been the progress in removing trade barriers. In the summer of 1949, the U.K. initiated a move in OEEC which resulted in the progressive removal by member countries of quantitative restrictions on imports. U.K. figure was 86%, and extended the measures of liberalization to the members of Sterling Area and to a number of other countries. In addition, the U.K. relaxed a number of currency exchange control restrictions. The value of intra-European trade more than doubled between 1947 and 1950 with the help of such liberalization measures. Trade between Britain and Western Europe expanded in consonance with the expansion of intra-European trade generally. The flow of trade between the oversea Sterling Area and Western Europe also increased between 1948 and the end of 1950. This has provided Western Europe with important non-Dollar sources of raw materials essential to the rapid growth of production, and has helped to raise the volume of European trade. In November 1951, it was necessary, in view of the deterioration in the balance of payments particularly with the EPU countries, for the U.K. to withdraw a number of liberalization measures from countries outside the Sterling Area. Even so, some 3/5 of private imports from European countries in

OEEC remained free from quota restrictions.

Exchange Control

Exchange control is primarily a financial control to conserve and allocate foreign exchange resources, control capital movements, and ensure that investment abroad flows into desirable channels. This implies the gathering of all the foreign exchange resources, and control over the use of foreign currency, whether for import payments, for commercial payments, and for foreign investment. Exchange control inevitably implies an element of discrimination, since it sets out to restrict certain payments, while conserving foreign exchange expenditure regarded as essential. Exchange control began in the U.K. on the outbreak of war in September 1939. The legal basis for the purely financial control was provided by the Defense (Finance) Regulations, issued under the Emergency Powers (Defense) Acts. In October 1947, these temporary wartime powers were superseded by permanent legislation—the Exchange Control Act of 1947, which, except for the control of securities, carried on with only minor changes the form of control that had been built up during the war. The wide powers contained in the Act are vested in the Treasury, which is responsible for exchange control policy. Most of the administration, in practice, is carried out by the Bank of England as agent of the Treasury. The Bank of England, in turn, has delegated to the commercial banks a wide variety of powers to deal with remittance applications.

Import-Export Control

The Import, Export, and Customs Powers (Defense) Act of 1939 empowered the Board of Trade to make Orders prohibiting or regulating the import or export of goods. The most important of the current Orders, made by virtue of this Act, are the Import of Goods (Control) Order of 1940, and the Export of Goods (Control) Order of 1951, as amended. Although the powers of both export and import control derive from the same legislation, the purpose and mechanism are different. The control on imports applies to all goods imported into the U.K. The main purpose of the control is to safeguard the country's balance of payments. Licences are issued by the Board of Trade authorizing private imports of particular commodities from one or more stated sources. Import control is closely linked with exchange control: a currency allocation is normally granted automatically in respect of all imports for which licences are granted.

The main purpose of export control is to conserve for home use material resources of economic and strategic importance, and to control the export of armaments, or of materials or equipment useful for waging war. Export control can also be used, like import control, as an instrument of balance of payments policy, to prevent the export to Soft Currency Areas of goods which have been bought for Dollars, or might be sold for Dollars—e.g. raw cotton or raw wool. This use of export control has been very limited. The government has preferred the more positive approach of encouraging exports both by exhortation and assistance, and by such inducements as preferential allocations of raw materials to exporters to Dollar markets. Conservation of resources, and control of strategic exports have, however, become of very great importance in the implementation of the defense programme—especially in view of the shortage of many key raw materials.

Export Credits Guarantee

One of the major forms of assistance provided by the government for the exporters is the service of the Export Credits Guarantee Department. The Board of Trade is fully responsible for its efficient operation, though the Treasury exercises an overriding control over its financial policy. On questions relating to export policy, ECGD works in closest collaboration with Board of Trade. ECGD is a non-profit-making organization which underwrites export transactions on a commercial basis—short-term policies are issued for consumer goods: long-term policies for capital goods. In short-term policies, the kinds of risks covered are: buyer's failure or refusal to pay, stoppage of payment through exchange restrictions or shortage of Sterling, loss arising from change in U.K. export control, and loss from any cause outside the U.K. beyond control of the exporter or buyer. Conditions for capital goods vary so much that special policies are required for each transaction: but, in general, the scope of the risks covered is similar to that given for short-term guarantees for consumer goods.

Since 1945, it has been possible to offer guarantees for external trade, by which is meant the sale by U.K. merchants of goods supplied from one country to another outside the U.K. Under the Export Guarantee Act of 1949, it is possible to give guarantees for any transaction, which, in the opinion of the Board of Trade, will encourage trade with places outside U.K. Thus, guarantees can now be given for earning foreign exchange through technical and consultant services—an important and growing invisible export,—as distinct from the sale of goods.

LABOUR POLICY

The British trade unions, immediately after the outbreak of World War I, proclaimed unilaterally an industrial truce, and agreed to relinquish the use of strike-weapon till the war ended. In return, the government promised to use its influence, after the end of war, in securing the restoration of pre-war trade union practices. Legal sanction to this agreement was given by passing the munitions of War Act in 1915, which, among other things, prohibited strikes and lockouts, and imposed compulsory arbitration in all industries engaged upon war work. The Committee on Production, originally set up to investigate labour problems in engineering and shipbuilding industries, became the principal arbitration tribunal. Soon after the end of war, the prohibition of strikes and lockouts was reprealed, but the government regulation of wages still continued for a year more.

Meanwhile, the Whitley Committee was appointed by the government to draw up plans for postwar industrial reconstruction. The Committee divided industries in three categories, and made recommendations accordingly. For the first category, which consisted of industries in which both employer and employees were well organized, it recommended the establishment of Joint Industrial Councils, together with District Councils and Workshop Committees, possessing a much wider range of functions than those of the ordinary Conciliation Board. These Councils, besides wage matters, were to be concerned with such questions as the labour participation in industrial control, better utilization of practical knowledge and experience of workers, technical training and education, and legislation affecting industry.

For the second category, which consisted of less adequately organized industries, it recommended the establishment of Joint Industrial Councils: but government officers were to sit in these Councils in purely advisory capacity. For the third category, which consisted of unorganized industries, it recommended the setting up of Trade Boards, which were to be replaced by Joint Industrial Councils ultimately, when industries in this category became well organized. So far as arbitration was concerned, the Committee did not favour any schemes for compulsory settlement of industrial disputes, but recommended the State to set up a voluntary Arbitration Court, and arm itself with powers to hold public inquiry into the circumstances of any industrial dispute. These recommendations were given legislative form subsequently.

The Trade Boards Act of 1918 authorized the establishment of Trade Boards in industries, which uptil now had no adequate machinery for the effective regulation of wages. Between 1921-39, Boards had been set up in 40 trades, employing about 1.5 million workers. With the postwar slump, came criticisms by employers of the Boards and their rate-fixing policy. Cave Committee, which was appointed to study this situation, recommended, among other things, to restrict the application of this system to trades in which there was not only a lack of negotiating machinery, but also an unduly low level of wages. No amending legislation was passed, but the extension of Trade Board system was very much slowed down.

The Trade Disputes and Trade Union Act was passed in 1927 in order to restrict the use of strike-weapon in the hands of labour. The Act declared illegal all sympathetic strikes, and strikes designed or calculated to coerce the government either directly, or by inflicting hardship upon the community. It required all unions of civil servants to sever their relations with the rest of the trade union movement. Finally, it provided that no member of a union could be called upon compulsorily to pay a political levy, unless he had first signed a form, showing his willingness to contribute to the same.

The total working population, at the end of 1951, was about 24 million—roughly 48% of the total population. A large number of workers in industry, agriculture, and transport are organized into trade unions. In 1950, the total membership of the British trade unions was 9,235,000. There were 704 separate trade unions, but 66% of all trade union members were in 17 big unions. The central organization of the trade union movement is the Trade Union Congress, to which a great majority of trade unions are affiliated. The annual conference of delegates from affiliated unions settles its general policy. The General Council, elected annually by Congress as its executive body, carries this policy into effect. The Trade Union Congress is recognized by the government as the principal channel of consultation between the government departments and representatives of organized labour, over the country as a whole, on matters widely affecting their interests.

Conciliation and Mediation

While, in some cases, all matters affecting terms and conditions of employment are discussed on an ad hoc basis between the employer's organizations and the trade unions concerned, in other industries, standing bodies—generally known as 'Joint Industrial Councils'—exist for dealing with such matters, by joint discussion at a national level. There are about 130 of these bodies. They are composed of representatives of both sides of the industry, with, in some cases, an independent chairman. Their functions vary considerably: some being merely wage-negotiating bodies, while others deal with a wide range of subjects affecting the interests of the industry concerned. If it is not found possible to reach agreement as to the terms of settlement, they may agree to refer the question to various forms of arbitration, including any of the methods provided under the Industrial Courts Act of 1919.

Similar arrangements exist at district and factory level in many industries, where matters are discussed either between the appropriate representatives of the two sides on an ad hoc basis, or through regular machinery provided by district Joint Industrial Councils or similar bodies, and Works Councils. Such bodies discuss how agreements reached at a national level may be applied to their district or factory: but, as a rule, have no power to alter the terms of such national agreements. They also discuss new problems which may arise: and if no solution can be found at factory or district level, the matter may be referred to the national body.

The Ministry of Labour, under the authority derived from the Conciliation Act of 1896 and the Industrial Courts Act of 1919, has certain powers to assist industry to settle disputes, which it is not found possible to resolve through an industry's own machinery and procedure. These powers are intended to supplement, and not to supersede, the industry's own machinery. To assist conciliation in industry, a staff of Concialition Officers forms part of the Ministry of Labour. Their duties are to keep in touch with the course of relations between employers and workers at national, district, and, in some cases, factory level, and to assist them to settle their problems by joint discussion and negotiation, if so requested.

Disputes, which cannot be settled in this way, may, at the request of both parties, be referred to voluntary arbitration either by a single arbitrator, or an ad hoc Board of Arbitration, or by the Industrial Court—a permanent tribunal established under the Industrial Court Act of 1919. At present, provision is also made, by an order under emergency legislation, for the disputes and 'issues' about wages, hours, and so on, to be reported to the Minister, in certain circumstances, by one of the parties: and to be referred to an Industrial Disputes Tribunal, if all other means of settlement have been exhausted. This Tribunal consists of a chairman, and two independent members appointed by the Minister, together with one member representing employers, and one representing workers.

If a dispute occurs or is apprehended, which is not susceptible of settlement by any of the above methods, the Minister may also appoint a Court of Inquiry or Committee of Investigation. These are primarily a means of informing public opinion of the facts of dispute. The report of a Court of Inquiry has to be laid before Parliament. Although the reports of such bodies are not binding on the parties, recommendations made in such reports usually provide the basis of a settlement of the difference.

In addition to the arrangement already described, the purpose of which is mainly, but not exclusively, for discussion and settlement of terms and conditions of employment, there are, in many industries, national agreements which provide for the establishment, in firms of size, of machinery for joint consultation between management and workers on problems of common interest. In some industries, the constitution and functions of joint consultative committees—or as they are sometimes called 'Joint Production Committees'—are laid down in agreement. In other industries, where no national agreement on the subject has been reached, the practice of joint consultation in the factory is being increasingly widespread.

The range of subjects which Joint Committees can fruitfully discuss is wide, and includes hours of work (within the framework of agreement), safety affecting production, recreation, and employee's services generally. The constitution and functions of these Committees vary from one industry to another. It is the practice, however, to exclude from their scope questions relating to wages and conditions of employment, and other matters covered by negotiation between organizations of employers and workers. It is the policy of the government to foster the development of voluntary joint consultation throughout industry, not only because of its effect on production, but also as a most important means of maintaining good relations between management and employees.

Previous Social Insurance Legislation

1. Accident Insurance: For a long time, there was no insurance system for accidents in England. Upto 1880, a worker who was injured by accident could claim compensation from the employer by instituting a suit in a law court. No compensation was, however, given if the accident resulted by the negligence of a co-worker. This drawback was removed by the Employer's Liability Act. The scope of the Act was widened from time to time by subsequent Workmen's Compensation Acts. The consolidated Act of 1923 applied to nearly all workers in factories and mines. Compensation for accidents was payable even if the employer was not guilty of negligence on his part. A worker who was totally incapacitated was paid 1/2 the wages, upto a maximum of Sh.30 per week. In case of partial incapacity, the difference between his former earnings and actual earnings was paid. If the accident resulted in the death of worker, the widow was given a sum between £200 and £300, and an allowance to the children, upto a maximum of £600.

2. Health Insurance: The first statutory legislation to provide against sickness and disablement was the National Health Insurance Act of 1911. The Act applied to all manual workers and non-manual workers, whose annual income did not exceed £160. Benefits provided under the Act were free medical attendance and medicine, and treatment in sanatoria, if necessary: cash allowance of Sh.10 a week, and Sh. 7/6 to a woman, after certain number of contributions were paid: disablement allowance after 26 weeks of continued illness: and a sum of Sh. 30 to the wife of an insured on her confinement. The finance necessary for the scheme was to be had from contributions by workers, employers, and the Treasury.

3. Contributory Pensions: The most serious gap in the system of social insurance was filled by the Widow's, Orphan's, and Old Age Pensions Act of 1925. The Act provided for the payment of widow's pensions at the rate of Sh.10 per week, together with an allowance of Sh. 5 for the first dependent child, and Sh. 3 for each subsequent child. For orphans upto the age of 14 (or 16 if at school), pensions of Sh. 7/6 a week were provided. The insured workers and their wives were given pensions at the age of 65 without any test of means. In 1937, the scope of the Act was widened by the Black Coated Workers' Act, by making it applicable to the lower paid middle classes hitherto excluded, either because their incomes were above the specified limit of £250 a year, or because they were not in insurable employment. This scheme was open to the people in business, on their own as well as to employees, provided that their incomes did not exceed £400 a year if they were men, or £250 if they were women.

4. Unemployment Insurance: Unlike the health and pensions insurance schemes, unemployment was the subject of prolonged and acrimonious political controversies. Its history from 1920 to 1934 is largely one of retrogression from insurance by contract to relief by status. The first scheme was established by the Act of 1920, which extended unemployment insurance practically to all industries, except agriculture and domestic services. Actually, the scheme was based on strictly actuarial principles. Its rates of contribution and of benefit, and its relating of benefit periods to the number of contributions paid were so devised as to keep the Insurance Fund financially self-supporting. The purpose of the Act was

limited to tiding a worker over a temporary spell of unemployment—15 weeks' benefit being originally the most that could be drawn in any insurance year: It was not intended to provide benefits for indefinite periods.

Immediately after its operation, the boom of 1919-20 broke and prolonged unemployment was imposed on hundreds of thousands of workers. From March 1921 onwards, the 'Uncovenanted Benefits' (later called 'Extended Benefits') were paid, in addition to the 'Covenanted' or 'Standard Benefits'. These extra benefits, payable at the standard rates, were an enormous drain on the Insurance Fund, which soon lost the surplus of £22 million it had in 1920, and accumulated a mounting debt. An attempt, therefore, was made in the Act of 1927 to rid the scheme of Extended Benefits. It was now provided that any claimant, who could show at each quarterly review of his case that he had 30 contributions to his credit in the preceding two years, could continue to draw his Standard Benefit for an indefinite period. But during a transitional period, which was extended year after year, benefits at the standard rates were payable to those with only 8 contributions to their credit in the last two years, or 30 at any time. Thus, the Extended Benefit, which the Act was intended to abolish, reappeared in the new guise of Transitional Benefit, the conditions for Standard Benefit having, at the same time, been made easier of fulfilment.

Finally, came the Unemployment Act of 1934, which introduced administrative order in the muddle of unemployment relief. An Unemployment Insurance Statutory Committee was set up to watch over the finances of the scheme and to recommend any changes that might be needed to keep it financially self-supporting. Those able-bodied unemployed, who could not fulfil the conditions of unemployment benefits, and who were within the scope of the contributory pensions scheme, were transferred to the newly constituted Unemployment Assistance Service. This was administered by a hierarchy of officials carrying out the regulations of ad hoc Unemployment Assistance Board.

The various measures of health and unemployment insurance, described above, were consolidated and extended by the comprehensive Social Insurance Act of 1946. (Refer 'Social Insurance System').

SOCIAL INSURANCE SYSTEM

By the beginning of World War II, the social services in Britain were among the best in the world, but they lacked co-ordination by the very fact of their piecemeal development, and were not universal. Under the stimulus of war, when plans for postwar reconstruction were being formulated, Lord (then Sir William) Beveridge was invited by the National Government to investigate the country's existing social insurance system. In 1942, the Beveridge Report was published: it recommended the creation of a comprehensive and unified system of social insurance. The Report aroused intense interest, and was accepted in general by the government as the basis on which the future social security structure should be built.

Family Allowances

The Family Allowances Scheme was the first part of the new system to be introduced. It started on August 6, 1946, and provided for an allowance of Sh.5 a week for every child in the family after the elder or eldest below school-leaving age (now usually 15 years). The allowance may be paid up to July 31, following the 16th birth-day, where the child continues in full-time education, or becomes an apprentice. Family allowances are paid from the Exchequer, and their object is to benefit the family as a whole.

National Insurance

The National Insurance Act of 1946 came in full operation on July 5, 1948. It applies, in general, to everyone over school-leaving age in Great Britain. Contributors are divided into three classes. Class 1: Employed Persons—or those who work for an employer under contract of service, or are paid apprentices (about 21½ million). Class 2: Self-employed Persons—or those in business on their own account, and others who are working for gain but do not work under the control of an employer (about 1½ million). Class 3: Non-employed Persons—or all insured persons who are not in Class 1 or 2 (about ½ million).

This general classification is subject to certain modifications, made by regulations, to meet special circumstances.

Married women engaged only in their own household duties are, in general, provided for by their husbands' insurance, and cannot become insured in their own right, unless they were insured under the old scheme at the July 5, 1948, or have since taken up paid work. Students undergoing full-time education need not pay contributions. Upto the age of 18, they are given 'credits', which help to maintain their insurance record. Over that age, they may, if they wish, pay as Non-employed Persons (Class 3). Self-employed and Non-employed Persons, whose income is less than £104 a year, can claim exemption from liability to pay contributions under the scheme.

These contributions, which the Exchequer supplements from general taxation, are paid on a single Contribution Card by National Insurance Stamps bought from a Post Office. It is the employer's responsibility in the first place to see that Class 1 contributions are paid: but he can deduct the employee's share from his or her wages. The Self-employed or Non-employed must stamp their own cards. Contributions need not be paid while benefit for unemployment, sickness or injury, or widowhood is being drawn.

The scheme provides for sickness, unemployment, maternity, and widow's benefit, guardian's allowance, retirement pension, and death grant. Industrial injury benefits are paid separately under the National Insurance (Industrial Injuries) Act of 1946. Persons in Class 1 are covered for all benefits: Persons in Class 2 are covered for benefits, other than unemployment and industrial injury benefits: Persons in Class 3 are covered for benefits, other than sickness, unemployment, and industrial injury benefits, and maternity allowance. For most of the benefits, there are two contribution conditions. First, before any benefit can be paid, a minimum number of contributions must actually have been paid since entry into insurance. Second, the full rate of benefit cannot be paid unless a certain number of contributions have been paid or credited over a specified period. For guardian's allowance and industrial injury benefits, there are no contribution conditions. Now let us analyse the system in detail:

1. **Sickness Benefit:** The standard weekly rate for a man or woman over 18 (except a married woman) is Sh.26, with an increase of Sh.16 for an adult dependent, and Sh.10

for the first or only child under school-leaving age, with Sh.2/6, in addition to family allowance payable, for each subsequent child. The weekly rate for a married woman is Sh. 16, but she is paid at the Sh. 26 rate, if she is maintaining an invalid husband and cannot get financial support from him. Unless 156 Class 1 and 2 contributions have been paid at some time, sickness benefit can be drawn only for a year. But, in general, it continues for as long as sickness lasts, if more than that number of contributions has been paid.

2. **Unemployment Benefit:** The rates of unemployment benefit are the same as for sickness benefit, except that the standard rate for insured married woman is Sh.20, instead of Sh.16. Unemployment benefit is paid, in the first place, for 180 working days: but it may be continued for up to a year, if the insured person has a good contribution record, and has not drawn much benefit in recent years. When these rights have been exhausted, a local tribunal, without any inquiry into a person's means, can recommend an extension of benefit.

3. **Maternity Benefit:** A maternity grant of £4 is paid for each child born: and either a maternity allowance of Sh. 36 a week for 13 weeks (beginning with the 6th week before confinement) for Employed or self-Employed women who give up their work for 13 weeks, or, for other women, an attendance allowance of Sh.20 for 4 weeks after confinement.

4. **Widow's Benefit:** There are three kinds of widow's benefit. They are paid only on the deceased husband's insurance. A 'widow's allowance' of Sh.36 a week, plus Sh.10 a week for the first or only child under school-leaving age, and Sh.2/6 a week for second and subsequent children (in addition to family allowances) is paid for 13 weeks. A 'widowed mother's allowance' of Sh. 40 a week is paid, following widow's allowance, to a widow who has a child under school-leaving age. She also receives Sh.2/6 a week, in addition to any family allowance, for each child after the first. A 'widow's pension' of Sh.26 a week is paid to a widow who is 50 or over at the time of husband's death, and has been married since 10 years: or who is 40 or over when her widowed mother's allowance ends, provided 10 years have elapsed since the marriage: or who, when her widowed mother's allowance ends, is incapable of support because of infirmity,

and is likely to remain so for a long time.

5. **Guardian's Allowance:** A guardian's allowance of Sh.13/6 a week may be paid to a person having care of a child whose parents (or step parents) have died, and one of whom was insured under the National Insurance Act. This continues while the child remains in the guardian's family, and is a child within the meaning of the Family Allowance Act.

6. **Retirement Pensions:** Retirement pensions are paid to men over 65 and women over 60, provided they have retired from regular employment. After the age of 70 (man) and 60 (woman), however, the pension is payable whether or not the claimant has retired. The standard rate for an insured man below 70, or woman below 65, and for a widow under 65, is Sh.26 a week. A married woman ordinarily qualifies on her husband's insurance at the standard rate of Sh.16 a week, while she is under 65. If after retirement, a pensioner below 70 (man) and 65 (woman) has any earnings, then for every Sh.1 earned over £2 a week, Sh.1 is deducted from the pension. On reaching the age of 70 (man) and 65 (woman), the standard rates of pension are increased to Sh. 30 and Sh. 20 a week respectively, and the pension is no longer liable to reduction on account of earnings. The higher standard rates also apply to men already aged between 65 and 70, and women between 60 and 65, on October 1, 1951. A retirement pensioner may be entitled to an increase of Sh.16 a week for his wife while she is under 60, and also an increase of Sh.10 for the first child under school-leaving age, and Sh.2/6 to each succeeding child, in addition to any family allowance payable.

7. **Death Grant:** A death grant of up to £20 is paid towards the funeral expenses of an adult, and the smaller amount on the death of a child. Grants are not paid for persons already over the pension age on July 5, 1948: or for children born before July 5, 1948, if they die before they are 10 years old. Reduced grants are paid on the deaths of people who, on July 5, 1948, were over 55 (man) and 50 (woman).

Industrial Injuries Insurance

The industrial injuries insurance scheme, which replaced workmen's compensation scheme, in July 1948, provides benefits for personal injuries caused by accidents, arising out of, and in the course of, employment. It covers practically everyone in Class 1 of the National Insurance Scheme, and certain others. Benefit is available from the moment of starting work. The scheme provides for the following benefits:

1. **Injury Benefit:** Injury benefit for an adult is Sh. 45 a week, plus Sh. 16 for an adult dependent, and Sh. 10 for the first or only child under school-leaving age, and Sh. 2/6 for each other eligible child, in addition to any family allowance payable. It is payable when the insured person is incapable of work, as a result of an industrial accident or disease. Payment can continue for a maximum of 26 weeks.

2. **Disablement Benefit:** Disablement benefit may be paid when injury benefit stops. The amount depends on the extent of the disablement, as assessed by a Medical Board. It varies from Sh.45 for 100% disablement, to Sh.9 a week for 20% disablement. For disablement of less than 20%, a gratuity is paid upto £150.

3. **Death Benefit:** If the accident or disease results in the insured person's death, death benefit is paid to the dependents. The amount varies according to the degree of relationship, and the extent of maintenance during life-time. A widow receives a pension of Sh.36 a week for the first 13 weeks. Thereafter, she gets a pension of Sh.30 if she is over 50, or permanently incapable of self-support, or has the care of a child of the dead man. In other cases, the pension is Sh.20 a week. In addition, an allowance of Sh.10 can be paid for the first or only child, and Sh.2/6 for each other child under school-leaving age. Certain other dependents, such as parents, are entitled to pensions, allowances, and gratuities. The amounts vary with the closeness of relationship, and the extent to which they were maintained by the deceased during his life-time.

The Budget for the financial year 1951-52 proposed to raise the family allowance payable for each child after the first from Sh.5 to Sh.8 a week. Similarly, it proposed to increase the basic rate of industrial injury benefit, and of industrial injury and war pensions for 100% disablement from Sh.45 to Sh.55 a week.

TRANSPORTATION

1. Railways

During the World War I, a Railway Executive Committee, composed of the general managers of the principal lines, operated the railways as a unified system. The companies were guaranteed, by the government, incomes equal to their net earnings in 1913, so that inter-railway accounting and inter-railway competition became pointless, and therefore ceased. Impressed by this experience gained under unified control, Parliament was converted to the view that railway amalgamations were in the public interest, and proceeded to put its faith to the test by passing the Railway Act, in 1921.

First, the Act provided for amalgamation of all the principal, and most of the minor, railways (numbering 120 all together) into four groups, which would be able to secure most, if not all, of the economies of unification. Within the greater part of its territory, each of the amalgamated groups had a monopoly of rail transport. Yet there remained considerable areas, which happened to include some of the heaviest traffic flows where the groups overlapped and provided competitive facilities. The effect of this new statutory grouping, thus, was to leave the bulk of the territory non-competitive, while the bulk of the traffic competitive.

Second, in order to safeguard the public interests against excessive charges or inefficient services, the amalgamated companies were subjected to a more rigorous State control than had ever been applied to the railway companies. For this purpose, the Railway Rates Tribunal was formed. The fixing of standard rates and fares, the alteration of the classification of merchandize, the determination of conditions of carriage and packing, together with many regulative functions were entrusted to this Tribunal.

Third, in the interests of economic working, the act authorized the Minister of Transport to require the railway companies to standardize their equipment, and to adopt schemes for the co-operative working, or common user of rolling stock, and of other facilities. The companies, however, were not allowed to enter into pooling agreements, or other forms of combination without the consent of the Minister.

Finally, there was included in the Act a conciliation scheme for regulation of wages and conditions of service of railwaymen. It was one of the most comprehensive schemes of its kind with its hierarchy of negotiating bodies for each company: its Central Wage Board, composed of equal numbers of representatives of the companies and of the railways: and its National Wage Board, consisting of an independent chairman nominated by the Minister of Labour, and of the representatives of railway users, companies, and unions.

Until 1933, this negotiating machinery worked, on the whole, admirably. Then, on the companies' proposing further reductions in rates of pay, the National Wage Board became hopelessly divided, and issued six separate reports. Thereupon, the railway companies gave notice to terminate the Central and National Boards. New negotiating machine was, however, instituted in 1935. The Wage Board was replaced by a Railway Staff National Council, with similar composition but greater authority. The National Board was replaced by a Railway Staff National Tribunal. The parties did not, however, undertake beforehand to accept the rewards of the Tribunal as binding. Railway system was nationalized by Transport Act of 1947.

2. Road Transport

During the last five decades, the internal combustion engine has not only added a new nation-wide branch of transport facilities, but has profoundly modified the social life of the people. It has enormously increased the mobility of the population. Motor transport has been subject to statutory regulation since its birth. The road regulation of the 1930's, however, is based on a much broader view that unregulated competition in road transport is wasteful, that it fails to provide co-ordinated services, and that the existing transport operators are entitled to protection against the intrusion of superfluous competitors. These views were embodied in the Road Traffic Act of 1930.

Road Traffic Act of 1930: By this Act, the licensing of public service vehicles was transferred from the local authorities to three Traffic Commissioners, appointed for each of the 13 traffic areas, in which Britain was divided. Firms, proposing to operate public passenger services by road, obtained from the Traffic Commissioners two kinds of licence—a 'Public Service Vehicle Licence' for each vehicle which must first pass certain tests of fitness; and a 'Road Service Licence' which authorized its owner to provide a particular type of service over a specified route. The Commissioners were authorized to attach various conditions to licences: They may, for instance, fix the fares to be charged, and draw the 'Time Table' for the service. The general effect of the control was, thus, to restrict severely the development of road passenger transport. It was exceedingly difficult for new operators to secure licences, since they had to satisfy the Commissioners that the existing services were not adequate. The railway companies naturally made the most of their right to oppose applications for licences—especially those for express carriage services—and secured a considerable measure of protection from the Commissioner. Passenger transport by road, thus, became practically a closed industry: stability was assured by the Commissioner for those who were within the charmed circle, but those who were outside must remain outside.

Road-Rail Traffic Act of 1933: Control by licensing was extended to the transport of goods by the Road and Rail Traffic Act of 1933. By this Act, chairmen of the Area Traffic Commissions, set up under the Road Traffic Act of 1930, were made the licensing authorities. Goods vehicles licences were divided into three categories: 'A' licences were issued to public carriers, 'B' licences were issued to limited carriers (firms using vehicles in connection with their own businesses, but sometimes also acting as public carriers), and 'C' licences were issued to private carriers whose sole use of vehicles was ancillary to their own business. In one significant respect, the control exercised over road hauliers was less extensive than that over the operators of passenger services. The Commissioners had no powers to regulate the rates charged for goods transport. As on the passenger side, the statutory control over road haulage had the effect of closing the industry to outsiders, who, in order to secure a licence, had to satisfy the Traffic Commissioners not only that there were traders who were prepared to utilize their services, but also that the existing transport facilities of all kinds were deficient relatively to public need. Consequently, the number of vehicles operated under A and B licences was reduced: while ancillary vehicles, operated under C licence without discretionary control by the Commissioners, increased. Road transport was nationalized by Transport Act of 1947.

3. London Passenger Transport Board

London's transport problem, which had been the subject of periodical government inquiries since 1863, became particularly acute after the World War I, owing to the variety of competing agencies serving the public. It was recognized that if there was to be any orderly development of London's transport services, competition must be superseded by monopoly. Unification, therefore, was achieved, in 1933, by the transfer to the London Passenger Transport Board, of all passenger transport undertakings in London traffic area, with the exception of the main-line railways, whose receipts from suburban traffic were pooled with those of the Board. This consolidated undertaking, of course, was unique among the growing number of Britain's Public Corporations, for it was managed by a Board which was appointed neither by a public authority, nor by a body of shareholders, but by certain 'Appointed Trustees' (i.e. Chairmen of London County Council and of Clearing Bankers' Committee, Presidents of Law Society and of Institute of Chartered Accountants, and a representative of London and Home Counties Advisory Committee). British Parliament, thus, attempted to avoid the dangers of both political interference through Ministerial control, and of public explanation through shareholder control.

4. Shipping

In shipping, as in most of the other industries, on which Britain's economic leadership was based in the previous century, the years following the World War I brought a relative decline, while British tonnage remained practically stationary. She lost nearly 8 million gross tons during the war; but had, by 1921, restored her prewar tonnage, partly through the activity of her own ship-building industry (during the boom of 1919-20), and partly by acquiring enemy tonnage as reparation payments. Meanwhile, certain countries—particularly U.S.A. and Japan—deprived of the services,, and the competition of the British mercantile marine had enlarged their own fleets. Hence, after the postwar boom ended, the world found itself supplied with a greatly expanded shipping tonnage, although the volume of international trade remained below the level of 1913. Unaided by the State, British shipping was, thus, already in a depressed condition, when still heavier burdens were imposed on it by the great slump of the early 1930's.

Determined to maintain a mercantile marine adequate for national defense, the government granted a temporary subsidy to tramp-shipping—the worst-hit section of industry—under the British Shipping (Assistance) Act of 1935. The subsidy was not to exceed £2 million a year, and was to be scaled down as shipping freight approached the level of 1929, which was taken as the normal year. Simultaneously, a Tramp Shipping Administrative Committee was established under the Act to regulate competition within the industry, and improve the level of freights. At the end of 1937, the subsidy and the Administrative Committee were discontinued, but the latter's functions were taken over by a committee, voluntarily established by the shipping industry. Assistance had also been given by the government to the Cunard Company in the form of loan, on exceptionally favourable terms, to finance the construction of two liners—Queen Mary and Queen Elizabeth. In order to ensure that these vessels should operate under the most favourable conditions, the government required the Cunard Company and White Stars Line to amalgamate, and so restrict the competition in the North Atlantic.

British shipping is not nationalized (except certain cross-channel shipping services taken over by the British Transport Commission as part of the main-line railway undertaking) : and, in peace time, State control is largely limited to seeing that the safety and other regulations provided for by the various Merchant Shipping Acts are carried out by the Ministry of Transport. In June 1951, the total gross tonnage of U.K. ships (500 gross tons and over) was just over 17¼ million. This figure was exceeded only by the U.S., and was just over 1/5 of the estimated world tonnage. This was inspite of the fact that, during World War II, Britain lost over 11 million gross tons, about 1/2 the total lost by the Allies, so that in 1945 only about 13 million gross tons, a little over

1/6 of the world's total, remained. Although the total tonnage of ships, included in the Merchant Navy of the U.S. is greater than the total British tonnage, Britain still has the largest Merchant Navy in the world engaged in sea-trading. British ships carry cargo between ports all over the world, and there are regular services on nearly every important sea-route.

5. Air Transport

Commercial air transport is an entirely postwar development. In 1924, Imperial Airways was established to operate civil air services under government supervision. That company, employing funds voted by Parliament for the development of empire air communications, pioneered, in collaboration with the Royal Air Force, the first long-distance air routes in the world, in Africa and Asia, and began the development of trans-Atlantic services. On the eve of the war, it was amalgamated, with its later counterpart British Airways with which it shared British air services to Europe, into the first public air corporation—British Overseas Airways Corporation (BOAC). During the war, the Corporation, under the direction of the Air Ministry, maintained and developed the pattern of inter-Commonwealth and inter-Allied air communications in close association with Transport Command of the Royal Air Force. At the end of the war, two new Corporations—British European Airways Corporation (BEAC) and British South American Airways Corporation (BSAAC)—were formed. The three organizations were nationalized into public ownership by the Civil Aviation Act of 1946. Subsequently, BSAAC was merged into BOAC, which, with BEAC, now operates all British scheduled civil air services.

The Boards of the Corporations are appointed by, and are responsible to, the Minister of Transport. Although they are required to carry out any direction issued to them by the Minister, it has been laid down as government policy that there shall be no interference with day-to-day management, and that the Corporations shall be accorded the maximum freedom in conducting their internal affairs, consistent with government policy and the Minister's responsibility to Parliament. An independent Air Transport Advisory Council, set up under the Civil Aviation Act, has the duty of considering any representation from any person, with respect to the adequacy of the facilities provided by the Corporations, or with respect to the charges for any such facilities.

BRITISH TRANSPORT COMMISSION

All the main-line railways in Great Britain, the ports formerly owned by railways, all except one of principal canals, and all long-distance haulage undertakings were nationalized by the Transport Act of 1947, which came into operation on January 1, 1948. Air services do not come into the scope of the Act. The body responsible for operating the nationalized transport is the British Transport Commission. Its function, as laid down by the Act, is to provide, or secure, or promote the provision of an efficient, adequate, economical, and properly integrated system of public inland transport and port facilities within Great Britain for passengers and goods. The London Passenger Transport Board, controlling all passenger services in London area, with the exception of suburban railway services, was also vested in the Commission. The Commission has delegated its work to six Executives, consisting of a chairman and a varying number of full-time and part-time members—all appointed by the Minister of Transport, after consultation with the Commission. The six Executives function as under.

1. **Railway Executive:** Complete responsibility for administering, maintaining, and operating the British railways is delegated by the Commission to the Railway Executive, which also manages and operates the packet ports—such as Harwich, Folkstone, and Holyhead (the points of connection between the British railway system and those of the Continent and Ireland), together with the connecting shipping services. Each member of the Executive has, apart from his joint responsibility for the smooth running of the system, a special departmental responsibility. One, for instance, is specially concerned with all operating matters: another with all commercial matters: another with all staff matters: another with mechanical engineering and research: another with civil engineering. Apart from this, the Executive is organized on a regional basis. There are six regions: London, Midland, Western, South Eastern, North Eastern, and

Scottish. In each region, there is a Chief Regional Officer, responsible to the Executive, but with considerable independent authority. His own officers have special functions, as have the members of the central Executive, and each is responsible to his opposite member in the Executive.

2. **Road Haulage Executive:** Long-distance haulage of goods by road was nationalized by the Transport Act of 1947, and is administered by the Road Haulage Executive, which has substantially completed the first stage of acquisition of the long-distance road haulage undertakings in the country. (Long-distance undertakings are described as those whose journeys exceed 40 miles or 25 miles from the operating centre). The administration is highly decentralized and is organized as under. First, the country is divided into 8 geographical divisions, and the operation of road haulage in the division is the general responsibility of the divisional manager. Each division is then divided into 3 to 5 districts, under a district manager. Districts are divided into 5 to 10 groups under a group manager, who controls about 125 vehicles. In each group, there is a varying number of depots. This organization keeps intact the personal relationship that has always existed between road haulier and his customer. In addition to the 8 geographical divisions, there is one special traffic division which handles certain types of freight, and is independent of geographical area.

3. **Road Passenger Executive:** A number of large omnibus companies has been acquired by the Commission, but the work of the Road Passenger Executive is planning and advisory rather than operational. Its main task, at the moment, is to review schemes for road passenger transport, which shall integrate this transport with other inland transport in the country.

4. **London Transport Executive:** Responsibility for the operation of passenger road and rail services in London area, with the exception of the main-line railways and certain suburban services, is vested in the London Transport Executive. This Executive differs from other Executives, not only in being concerned with two forms of transport—road and rail—but in being able to make over its predecessor—the London Passenger Transport Board—a system which had been operating as a whole for some years. The chairman and

full-time members each have special functional responsibilities, apart from their general responsibility for the smooth running of the system.

5. **Docks and Inland Waterways Executive:** The majority of the canals have been taken over by the Commission, and are operated and administered by the Docks and Inland Waterways Executive. For the purpose of operation, the Executive divides the canal system into 4 divisions. The Executive decentralizes administration as far as possible, and the divisional officer in each case has been given wide powers in the management of local business. The Executive also administers the small docks which used to belong to canal companies, and the docks which used to belong to the railways and which were nationalized by the Transport Act. The only exceptions are mainly points between railways and railway-owned steamer services, which are administered by the Railway Executive. Altogether, the Executive controls 40 major ex-railway-owned docks. Here again, they have adopted a policy of decentralization, and much responsibility is left to the chief docks managers, who work under the Executive.

6. **Hotels Executive:** Responsibility for railway hotels, refreshment rooms and restaurants, and the services of meals and refreshments on trains has been taken over by the Hotels Executive. Administration is handled by 7 officers responsible for purchasing, finance, and so on. In addition, there are other officers, responsible for management of the various types of services—e.g. hotels, refreshments rooms, and restaurant cars.

PUBLIC CORPORATIONS

The 'Public Corporation' has been favoured as an instrument for the regulation of industrial and semi-industrial undertakings in the public interest, since the beginning of the present century. As a device of administration, however, it is very much older. Its history in U.K. can be traced back to the corporate bodies of the Middle Ages, and its influence can be discerned in nearly all institutions of public control (except government departments), established during the past four centuries.

The Public Corporation, in its 20th century form, is, generally speaking, a public body having a clearly defined and specific task. Its Board of Directors and its staff are chosen for their experience and competence in a particular field. They are not civil servants, and although they are accountable to Parliament for their actions in a variety of ways, they are free of full and continuous Ministerial control. Financially, certain of the Corporations are self-supporting—i.e. their revenue from operations over a period of years is expected to cover running costs and the service of their loans. Others receive Exchequer grants to help them in carrying out the duties with which they have been charged. In general, the self-supporting Corporations enjoy a greater measure of independence in their work.

Internal Control

From the point of view of internal organization and scope, there are almost as many kinds of Corporations as there are industries and services administered in this way. The comparatively small prewar Corporations—e.g. the London Passenger Transport Board, the Central Electricity Board, and the British Broadcasting Corporation—had no standard pattern of any kind. They were designed as conveniently as possible to reorganize and operate, for the public benefit, some service that had hitherto been indifferently managed: or, that was developing so rapidly that it required some form of public control and assistance. Even their governing bodies varied in method of appointment and composition—The Governors of the British Broadcasting Corporation, for example, were appointed by the Crown: The London Passenger Transport Board was an expert functional Board, appointed by an independent body of Appointing Trustees: While of the members of the Central Electricity Board, who were appointed by the Minister of Fuel and Power, only the chairman had any executive powers.

The postwar Corporations resemble the prewar Corporations in the diversity of their general structure, organization, and method, having been similarly designed to suit the particular needs of the various industries, under public control. They are, however, less varied in the compostion and delimitation of their governing Boards, all of which (except that of the

Bank of England, whose Court of Directors is appointed by the Crown) are directly appointed by the responsible Minister, who also has full powers of dismissal. The fact that members of the national Boards are appointed by a Minister, who has reserve powers to issue directions to them in matters affecting the national welfare, together with the fact that government planning has taken out of the hands of the Boards the responsibility of reaching long-term decisions of a kind which their prewar counterparts would have made for themselves, limits the autonomy of the nationalized industries. Further measures of control are provided by the parliamentary debates, which take place on the activities of the Corporations when their Annual Reports and Accounts are presented to the House of Commons, and, at intervals, in the course of usual procedure on Estimates: and by the existence of Consumer Councils, which represent the interests of the general public. In matters of day-to-day administration and management, however, the Boards are perfectly free.

Corporations in Action

Two of the postwar Corporations were established merely to take over and administer an existing institution already functioning as a unit—i.e. the Bank of England, which, under the Bank of England Act of 1946, enjoys freedom of action, subject only to such instructions as the Treasury may, from time to time issue in the public interest, after consultation with the Court of Directors: and Cable and Wireless Limited, which, under the Cable and Wireless Act of 1946, is now a publicly-owned company, controlled by the Postmaster-General, working in close connection with the Post Office, in the operation of overseas telecommunication services. The other seven Corporations, established since 1945 to operate major industries and services, are new organizations, for which new administrative machinery has been set up. They are as under:

1. **National Coal Board:** It is a non-functional Board, statutorily responsible for its own regional organization. It has split up its undertaking into 9 divisions (each controlled by a separate Board), covering the main coal fields of the U.K. Collieries in the divisions are grouped into 50 area organizations, which work in conjunction with the colliery managers.

2. **British Transport Commission :** This is a small controlling and policy-making body. The various nationalized undertakings of the transport industry in the U.K. are vested in the Commission : but it has delegated functions to six Executives —e.g. Railway Executive, Road Passenger Executive, Road Haulage Executive, London Transport Executive, Docks and Inland Waterways Executive, and Hotels Executive. Each of these Executives consists of a chairman, and a number of full-time and part-time members, with functional responsibilities (except Road Passenger Executive, which is at present engaged only in preparing regional schemes of passenger transport integration). Each has its own independent subordinate structure, but all are finally responsible to the Commission.

3. **British Electricity Authority :** The Central Authority is a partly functional board. It controls the general policy of the whole industry throughout England, and is responsible for the generation and bulk supply of electricity to the statutory Area Boards. It has sub-divided the generating side of the industry into 14 divisions, corresponding geographically to the Area Boards. The Area Boards are responsible for the distribution of electricity. They are mainly autonomous, although the Central Authority has certain powers of supervision. Their areas are divided into between 4 and 9 sub-areas, and the sub-areas are divided into a number of districts.

4. **Gas Council :** It is an advisory and co-ordinating national body, and has extensive powers over the Area Boards in the matter of finance. There is no common pattern of organization. Each Board is fully independent, and has devised its own subordinate structure.

5. **British Overseas Airways Corporation :** It is responsible for long-distance air traffic between United Kingdom and countries outside Europe. Its air fleet is organized geographically in 4 services.

6. **British European Airways Corporation :** It undertakes air services within the United Kingdom, and between the United Kingdom and Europe. Its operations are divided between British services and Continental services, each controlled by a general manager.

7. **Colonial Development Corporation :** Its duty is to investigate, formulate, and carry out projects for developing colonial resources.

PART THREE

GERMANY

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PRE-NAZY AGRICULTURE

When the war broke out in 1914, agriculture was called upon to supply large amounts of food, as imports from outside were rendered impossible by the blockade of Europe. Agriculturists experienced great difficulties in regard to transport and chemical fertilizers. The food situation was not serious until 1916. Thereafter, drastic cuts were made in civilian consumption, and many people in cities were living a starved life. At the time of the Revolution, the food situation was grave.

The physical volume of production during the postwar years, did not reach the prewar level for four reasons. First, Germany, under the Treaty of Versailles, lost many parts of the country which were agriculturally important. From the point of view of food production, the loss of Posen, West Prussia, and North Schleswig was serious. They contributed roughly 15% of the prewar arable area. Second, there was a decline in the crop yields from 5% to 15% due to the shortage of fertilizers, mainly contributed to the loss of Lorraine iron ores. Third, under the Treaty terms, it was also called upon to make actual deliveries of livestock and food. Fourth, the debacle of currency, and the burden of reparations had a very demoralizing effect on the farmer, and therefore improvements in technique were very slow.

The period of inflation, from 1919 to 1923, offered the owners of the mortgaged farms, the opportunity to get rid of their debts by payment in depreciated currency, and to farmers, paying a fixed rental—the advantage of rising prices for their products. The urge to get rid of money before it depreciated, also led to many permanent improvements and to the purchase of a great amount of farm equipment. For this last purpose, it is estimated that half of the available funds were spent, but often unwisely—e.g. a peasant would buy a threshing machine which he would use only a week in the year, or a tractor which would be in operation for less than a month of working time.

The stabilization of currency put an abrupt end to these conditions. The products of other countries, cheaper and better graded, flooded the market: and, inspite of the high protection ranging from 30% to 60%, the prices of agricultural commodities fell steeply: and the fall was still greater with the coming of the depression in 1929. The German farmer was favoured only in the purchase of nitrates and agricultural machinery, of which the production was efficient, so that prices remained low. During four years of stable currency, German agriculture incurred debts approaching $ 2 milliard. Many of the farms in the East were mortgaged upto the full value of the land.

The agricultural situation was very critical in the post-war years—particularly between 1929-32—and the government made an attempt to improve agricultural technique by carrying out an analysis of the technical means of production. An experimental station was set up in Saxony to study improved methods and introduce them in German agriculture. It further carried out time and motion studies, standardization of agriculture and their parts, and introduced better methods of grading, packing, and marking. But none of these measures was of any avail in reducing the suffering of farmers from depression.

The condition of agriculture appeared almost desperate when Hitler assumed power. Returns to producers had dropped from 10 milliard Marks in 1928 to less than 7 milliard Marks in 1932: interest on debt absorbed a considerable proportion of the reduced income. During 1930-32, farm-owners had lost over a million acres by forced sale, and prospects threatened bankruptcy on a much large area. The large estates lacked money to pay their labourers, and mobs gathered to prevent expropriation of peasant holdings.

The desperate state of agriculture created a series of problems for Germany. Because of it, there could be no possibility of removing agricultural protection: but its continuance had serious effects on the cost of living of industrial workers. Consequently, their wages remained high. The ability of industry, which was struggling to re-establish itself to increase its exports, was seriously impaired. The tariff walls in foreign countries already placed insurmountable difficulties in the way of these exports. Thus, the financial position of Germany was rendered very desperate by the agricultural position at home. Agriculture has been one of the weakest spots in the German economy since 1924, and one of the principal sources of internal stress.

PRE-NAZY ECONOMY

Germany emerged from the First World War crippled by the loss of all its substantial foreign investments, its colonies, its merchant fleet, and large slices of territory, including a considerable proportion of its mineral resources, heavy industries, and markets. Their effects were overshadowed by the reparation burdens (13,200 million Marks) which directly or indirectly determined the economic development of Germany during the first postwar decade. This reparation burden was primarily responsible for the catastrophic inflation of 1922-23, although the weakness and indecision of the government were partly to blame for the loss of control. Unable to meet the reparation obligations on the top of a national debt, which had grown 30-fold since 1913, the government resorted to borrowing and printing press. During 1922, the slump of the Mark increased in pace. The occupation of the Ruhr, which followed the German default on its reparation payments, led to the complete collapse of its currency, which was reduced to one million-millionth part of its prewar value.

At the same time, the German reparation obligations, though scaled down in 1924 under the Dawes Plan, had to be met either by the creation of a large export surplus, or by foreign loans. The former alternative had, by 1924, ceased to be a practical possibility, if it was one. Neither Germany's creditors nor any other countries were willing to increase their imports from Germany to anything like the requisite extent. While an attempt to produce an export surplus by a reduction of German imports would have involved a deflationary movement of such severity that the German social structure, already weakened by the inflation, would have collapsed by the strain. Foreign loans provided the remedy. Between 1924-30, Germany borrowed, mainly from the U.S.A., but also from Holland, Britain, and some other countries, a total of 30,000 million Marks, of which probably nearly half were on short term. These loans enabled Germany not only to meet its obligations on reparation account, and to build up foreign balances and investments totalling about 9,700 million Marks: but, in addition, to incur a regular deficit on its balance of trade. At the same time, these loans more than met the capital scarcity from which Germany was suffering, and provided the finance for four years of rapid internal recovery and expansion.

During 1929, the inflow of capital ebbed. With the American and world slump, and the general scramble for liquidity, it ceased altogether: and, during 1930-31, was reversed by a panic withdrawal of short-term funds. This led to renewed capital scarcity. Moreover, the political uncertainty, caused by the slump and the deflationary policy of the government, led to new outflows of funds: Germany, as well as foreigners, sending their money out of the country. Reparation payments, which had to be met out of a rapidly disappearing export surplus, increased the pressure on the German exchange position. In June 1931, the situation was temporarily eased by the one year moratorium on all inter-governmental debts proposed by President Hoover, and by a new $ 100 million credit granted by foreign central banks. A severe internal banking crisis was met by an internal moratorium, and a drastic reorganization of the whole banking system. Further pressure on Germany's gold and foreign exchange reserves, and the external value of the Mark, was checked by the imposition of exchange control.

In the meantime, between 1928-32, productivity fell by 46%, and the fall in the output of capital goods, which amounted to 65%, was even more disproportionate than in any other countries. Unemployment, which during the preceding years of rapid technological advance fluctuated between 1 and 2 million, rose to 6 million in January 1932. The Brunning government attempted to adjust the German economy by instituting a policy of rigorous deflation, inspite of the social upheaval which this entailed. Drastic cutting of costs by reducing wages and social services, together with an effort to mitigate the effects of this reduction by price control, was the technique adopted under the rule by emergency decree. This policy proved unsuccessful in lifting the internal economy out of depression: it only served to intensify the political struggle. In 1932, the last pre-Nazy government began to supplement this policy by reflationary measures—such as tax remissions for firms increasing the number of workers employed, and the creation of fresh credit facilities for industry. Possibly owing in part to this policy, the German economic system began to recover slightly in the second half of 1932. But the economic chaos, misery, and unemployment had brought the social system to the verge of collapse. Frightened by the prospects of revolution from the Left, big business helped to install Fascism in power.

DAWES PLAN

In December 1922, the U.S. Secretary of State Hughes declared that the German reparation problem was an economic and financial one, and should be taken out of the hands of diplomats and politicians, and turned over to a group of experts who should decide what Germany was able to pay and how it might pay. This led to the appointment of Dawes Committee of Experts by the Reparation Commission. In January 1924, representatives of different powers assembled in Paris and promptly elected Charles G. Dawes, of the U.S., chairman. One of the main problems of the Committee was to determine how the resources of Germany could be availed of to pay the Allied Nations. Conditions in Germany were chaotic at that time, and an important problem was the stabilization of the German currency and the rehabilitation of the country generally. After about three months of intensive research, the Committee made its recommendations, which became known as the Dawes Plan. The Dawes Report was accepted by Germany and other nations involved, and promptly put into force in the fall of August 1924:

1. The Dawes Report wisely did not attempt to determine the total of reparations that Germany should pay, but undertook to decide merely what Germany could pay each year in the immediate future. The Plan provided for small payments the first year or two, working upto about 2,500 million Marks the fifth year, 1929.

2. The revenue necessary for the reparation payments was to be realized from a system of Budget provision, transport tax, interest and amortization on industrial debentures, and interest and amortization on railway bonds, as under:

(a) The Budget provision was to be made up from the customs receipts of beer, tobacco, and sugar taxes, and the income from alcohol monopoly. This source was to contribute 50% of the whole annual payment.

(b) The transport tax was to be levied on the gross revenues of railways. The railways were required to pay a total of 11,000 gold Marks. The annual payment was to consist of 5% as interest and 1% amortization charge on mortgage bond of an equivalent amount. The contribution of the railways, including transport tax, was to amount to 38% of the standard reparations.

(c) The industries were required to contribute 5000 million gold Marks. The annual payment by them was to consist of 5% interest and 1% amortization charge on the first mortgage bonds issued equal to the total amount. The contribution by industries was to amount to 12% of the annual reparation payments.

3. The Reich Bank was reorganized with the exclusive privilege of issuing notes. The Bank was made free from government control, but was to be under the supervision of a Board, one-half members of which were foreign.

4. The payment deliveries were to be made in kind or in German currency. A Transfer Committee was appointed which was charged with the duty of regulating both deliveries in kind and transfer in foreign currencies in such fashion as to protect the German exchange and assure the stability of German currency itself.

5. As regards the distribution of reparations, the first charge on all receipts was to be made in service of the German external loan of 1924. (In order to initiate the Plan, Germany borrowed about 800 million Marks in the world capital market). Then came certain priorities, chiefly the costs of administration of the various Commissions: and then the shares of the creditor powers themselves—France was to get 52% of the total reparations, Great Britain 22%, Italy 10%, Belgium 8%, and other countries 8%.

YOUNG PLAN

The Dawes Plan was recognized at the time as a temporary measure for two reasons. First, it provided no end to reparations, the total having been left indefinite in the interests of harmony. Second, it set up an elaborate system of supervision over Germany's financial affairs. This was offensive to German pride: reparations themselves were also greatly resented. Late, in 1927, therefore, the Allied Nations and Germany agreed that a new committee be established to prepare a final solution to reparations. Accordingly, the so-called Young Committee was appointed and met in Paris in February 1929. The chairman of this Committee was Owen D. Young, an American, who had also been a member of the Dawes Committee. The Committee reported on the following lines:

1. For the first time, the amount and duration of reparation payments to be paid by Germany was fixed—i.e. 121 milliard Marks, spread over 59 years till 1988. The size of the proposed annual payments was considerably reduced—by 1/4 at the start, and by 1/5 on the average, below the level of Dawes Plan.

2. The foreign machinery of control and supervision, established on the economic life of Germany under the Dawes Plan, was removed, and financial autonomy was restored to it.

3. The Plan also proposed for the partial mobilization or commercialization of annual payments by the issue of bonds. By their public sale, the Allies could get immediately a part of the whole payments. Industrial and railway mortgages were abolished: and suitable changes were made in taxation to raise adequate funds.

The Young Plan had scarcely begun to function when economic depression seized the world. Germany's revenues declined, as did the country's foreign trade. German finance began to crack under the load. Germany had borrowed heavily abroad—especially in America—in the years following the Dawes Plan, and had now large foreign payments to make in addition to reparations. These foreign borrowings amounted to 19,300 million Marks, about half of which were repayable on short-terms. Much of the money, however, was invested in long-term undertaking—both public and private. The merchant marine was reconstructed, many industries modernized, and towns carried through programmes of public improvements.

When foreign creditors, financially involved at home and nervous over Germany's condition, asked Germany to remit, it was unable to meet their demands. It exported some of its gold reserve, but this did not suffice. Great Britain, on its undoing, loaned Germany in an attempt to hold things together. However, after the crisis of 1929, President Hoover, realizing the disturbing effects of the payments of the international debts arising from the great war, proposed the suspension of all such payments in 1931 for one year. The subsequent Lausanne Conference of 1932 virtually put an end to all reparation payments.

PRE-NAZY INDUSTRIAL REGULATION

The machinery for regulating industry, which replaced the traditional market mechanism, was not an entirely new creation fashioned at a single stroke in accordance with some pre-arranged Nazy plan. It was constructed gradually over a period of years. When the Nazis seized control, this organization was operating on both functional and territorial basis.

Functional Unions: The functional bodies represented the interests of specialized entrepreneurial groups. By 1930, hundreds of them had developed in every branch of industry on a countrywide basis. The advantage of co-ordination, sooner or later, drew the functional entrepreneurial associations in each industrial branch into powerful central bodies—e.g. National Union of German Industry, National Union of German Wholesale and Export Trade, National Union of Agriculture, National Union of Transportation, National Union of Private Insurance, National Union of Handicraft, Central Union of German Banking, Central Association of Retail Trade, and various National Employers' Associations. In 1920, all the national and central bodies were further co-ordinated in a super association on national basis—the Central Committee of Entrepreneurial Associations. By far, the most influential member of the Central Committee was the National Union of German Industry, which came into being in 1919 through an amalgamation of two national bodies (representing heavy industries and light industries). Its effectiveness was due, in no small measure, to the fact that its leadership was usually in the hands of the most powerful industrial enterprises in Germany. Throughout its history, from 1919 to 1933, Presidents of the National Union were recruited from among the chief administrators of Krupp and the I.G. Farben Industrie.

All individual functional associations in manufacturing and mining, including those organized on territorial basis, were members of the National Union, which, in 1930, included 28 special industrial divisions, and 1320 industrial associations. Its most important divisions were: mining, querrying, iron and metal production, iron and metal manufacturing industries, machines, electrical industries, chemistry, leather, rubber, textile, paper, food, wood, clothing, building and transportation.

Territorial Chambers: The territorial organizational structure of all industrial and commercial enterprises had been highly developed under the Weimer Republic. Made up of the Chambers of Industry and Commerce, it was supervised by the government, was democratic, and, formally at least, was based on equal rights for all members, regardless of the size or nature of the enterprises they controlled. Each member was to represent the common interests of all the industrial and commercial enterprises in a given area. Their tasks were many and varied. They represented the business interests of their districts in negotiations with municipal, State, and Federal governments: appeared as experts before courts, parliamentary committees, and investigations: organized arbitration commissions and established trade schools: and advised businessmen in their districts on a host of matters—including taxation, export and import problems, and competitive conditions for individual industries in domestic and foreign markets. To increase their influence and to pool their facilities, the Chambers organized themselves into regional and national associations. As early as 1861, a Federation of Chambers of Industry and Commerce was organized on a national basis. On April 1, 1933, the 112 individual Chambers, which then existed, all belonged to this National Federation.

Cartel Decree, 1923: The traditional German attitude toward cartels has never been hostile. In 1897, the German Supreme Court held that combinations of individuals or enterprises do not violate the principle of freedom of trade, unless, intent or in actual fact, they are consumer-exploiting monopolies. In the eyes of the German courts, the cartel was a lawful manifestation of the right of entrepreneurs to exercise freedom of contract. This attitude and the absence of specific legislation curtailing monopolistic practices did much to encourage the growth of cartels, and the view that they were a higher form of economic organization. From 1914 to 1918, cartels performed many important functions in the war economy and increased. The revolutionary political developments in Germany, in and after 1918, did not affect the structure of cartels. The only developments which did take place, during this period, were—the creation of a new compulsory cartel for coal industry: and the reform of the compulsory cartel for potash industry. Out of the unrest and resentment against all organized industries during the period of inflation, and out of vigorous agitation by organized groups antagonistic to the cartel interests, finally came the Cartel Decree of 1923—the first official cognizance of monopoly taken by the legislature. The decree dealt with the various possible relationships of cartels—those among cartel members themselves, those between cartel members and third parties, and those between cartels and the State. To settle disputes that might grow out of any of these relationships, it created a special Cartel Court: its decision was final and binding on all courts of law.

1. The decree gave three powers to the Department of Economics, if a given cartel contract appeared likely to endanger the national economy or the welfare of the community. First, it could file a motion with the Cartel Court to avoid the agreement, or to prohibit its execution. Second, it could announce that any party, interested in the contract or decision, could withdraw from it at any time and without notice. Third, it could issue orders stating that a copy of all measures and rulings with regard to the contract or decision were to be sent to him: and that all these measures were not to take effect until he had received copies of them (Sec. 4).

2. In case of excessive interference with the economic freedom of a party to a cartel contract (either a cartel member or non-member having a contractual relationship with a cartel) action could be taken, by the injured party himself, and, if appealed by the cartel, was subject to review by the Cartel Court (Sec. 8).

3. The heart of the decree, however, was the unprecedented provision that contracts, in any way involving cartels, though executed in good faith, could lawfully be terminated

at any time during the life of the contract, by any party to it, by the order of the government, or by the order of the Court. Such contract ceased to be binding, either when it unduly limited the economic freedom of the withdrawing party, or when it (or a decision by a cartel) endangered the economic life or the welfare of the community (Sec. 9).

Whatever potential effectiveness these provisions might have had, was vitiated by the way the decree was enforced. While private entrepreneurs frequently took advantage of the privilege granted to them under Ss. 8 and 9, the pre-Nazy governments were apathetic, and seemed reluctant to make use of their power under Sec. 4. All in all, in the 10 years until 1933, the Department of Economics proceeded against only five times. Not one of the 210 decisions made public by the Cartel Court, from November 1923 to August 1933, dealt with suits before it under Sec. 4 of the Cartel Decree. When questions were raised in the Reichstag about the government's lack of initiative, the usual reply was that the mere threat of Sec. 4 had effectively prevented those cartel activities which it had been designed to eliminate. Thus, in general, restraint of trade was considered legal, even though there were circumstances under which individual cartel contracts could be invalidated.

The significance of cartel in Germany is perhaps better revealed by the estimate of the Institute of Business Cycle Research, which suggests that about 40% of the entire industrial production, in 1933, was controlled by the cartels.

INTERNAL RECOVERY POLICY

When the Nazis came to power, they realized that their regime was bound up with their success or failure in dealing with the desperate economic position of the country, and that the touchstone of success would be their ability to get rid of unemployment. During 1933-34, therefore, Nazy economic policy concentrated on the task of stimulating economic activity of any kind, and using every conceivable method of reducing the unemployment figures. In pursuit of this objective, the Nazis characteristically did not rely on monetary measures alone. They resorted to innumerable devices of putting the unemployed directly to some work somehow. Considerable numbers were taken off the labour market by the introduction of compulsory Labour Service, compulsory year on land, and by vigorous campaign against employment of women. Many also were absorbed by the rapidly growing (State and Party) bureaucracy and by army. Strong pressure was put on employers to increase or change their staff uneconomically. Short-time was enforced in some industries. Even wage control may partly have been intended as a work-spreading measure.

Expansionist Monetary Policy

All these measures, in the first two years, enabled Hitler to claim quick success in the reduction of unemployment. These direct measures were coupled with an expansionist monetary policy. During the Work Creation period, additional public expenditure took three main forms:

1. The Nazy government, in contrast to the New Deal, did not resort to pure relief expenditure, over and above the existing system of unemployment relief. Some of the additional public expenditure—especially money spent on increased government pay, small sums paid to Labour Service, and the system of marriage loans—did distribute purchasing power directly to consumers, and, like relief expenditure, did stimulate economic activity by increasing effective demand.

2. Some of the additional public expenditure went on financial assistance to private industry. Again, in contrast to the U.S.A. under Hoover regime, this financial assistance took the form, not of unconditional loans, but partly of State subsidies, and partly of tax relief for certain specified forms of private investment: (The former mainly for house repair and building, the latter mainly for replacement and extension of factories and machinery).

3. From the start, the bulk of the additional expenditure of the Nazis took the form of direct public investment expenditure. More than half of 5 milliard RM expended under the Work Creation Programme of 1932-35 was spent on public works for the construction of strategic motor roads, ordinary roads, public buildings, waterways, State railways, and canal improvement.

By December 1934, before the indirect effect of the Work Creation Programme had made itself felt, unemployment had fallen by more than 3 million, the volume of industrial production increased by 30%, and private gross investment had risen from 440 million RM in 1932, to 1070 million RM in 1934. In 1935, economic recovery and work creation ceased to be the main objectives of Nazy economic policy. They were replaced by preparation of war and economic self-sufficiency. As a result, the rate of public expenditure of the first two years of the Nazy regime was not only maintained after 1934, but increased by leaps and bounds: Between 1935-38, annual expenditure rose from 12.2 milliard RM to 22 milliard RM. The economic problem of the Nazy government after 1934, therefore, became the problem of War Economics: It was solved by the gradual extension of central control to almost every form of economic activity, and every corner of economic system.

Nazy Controlled Economy

The development of economic controls in Germany, like most other aspects of Nazy economic policy, followed no clear and pre-conceived plan. Here an attempt is made to give a brief outline of the incredibly complicated instrumental framework of the Nazy Controlled Economy:

1. **Control of Consumption:** Control of consumption was implicit in the decision to direct labour and capital from the production of consumer goods to the production of investment goods. It meant that money incomes, increasingly earned in the production of capital goods—such as armaments, machines, and factories—would grow much faster than the output of consumer goods, on which these incomes could be spent—a process which, sooner or later, was bound to lead to inflation. It was this fear of inflation which provided the most urgent motive of direct control of consumption: and which, in particular, necessitated the extension of control from money incomes to prices and production. This control took two forms: control of money incomes, and price control.

I. Control of Money Incomes: The increase in money incomes, which would otherwise have resulted from the continued growth of public and private investment expenditure, was limited partly by taxation, and partly by wage control.

(a) Taxation: During the great depression, the last Republican government had, in pursuance of their deflationary policy, increased taxation to an extraordinary level. The Nazis not only maintained taxation at depression level, but even increased some taxes—such as Corporation Tax, which was raised by 50%.

(b) Wage Control: Taxation was, from the beginning of Nazy regime, supplemented by rigid control of wage rates. As early as 1933, trade unions were suppressed, and Labour Trustees were appointed. During the first two years, wage stabilization was exercised largely with a view to establishing a minimum wage level in the depressed industries by ironing out wage anomalies, and levelling up the wages of many classes of workers whom the trade union organization had left without adequate protection.

II. Price Control: Stabilization of wages necessitated the extension of control to prices and production. The first extensive measures of price control had been taken by the last Republican government as part of their deflationary policy. The Nazis, at first, attempted to confine themselves to restricting retail price increases. But it was obviously impossible to control prices without regulating costs: Step by step, therefore, the government extended control to the whole cost structure. The most important element of cost was, of course, already taken care of by the rigid wage control. Control of raw material prices was first introduced in the case of imported raw materials, the Exchange Control authorities simply attaching price conditions to the grants of import permits. By the end of 1934, price control had been extended to most of the home produced raw materials, either on the basis of existing cartel agreements, or in connection with agricultural price policy. The third element of cost, i.e. middlemen's profits, was regulated at first by fixing proportionate, and later by imposing absolute, profit margins. The general level of agricultural prices, too, was stabilized at a level considerably above world prices.

In 1936, under the pressure of rapidly rising world prices for raw materials, and the intensification of investment under the Second Four Year Plan, the piecemeal system of price control, which had grown up, was replaced by a centralized system under a new Commissioner for the Formation of Prices. In the Price Stop Decree of November 1936, price increases of any kind whatever (excepting wages, and capital and money markets, which were separately controlled) were prohibited, except by special government permit.

2. **Control of Investments:** The Nazy government determined that most investments should take the form of rearmament, and production of substitute materials. It, therefore, became necessary to canalize savings into the desired direction, or, in other words, to ensure that private investment was limited to projects determined by the State. During the first phase of the Nazy regime (Work Creation), State control of private investment was confined, apart from the vitally important prevention of capital exports by Exchange Control, to the capital market. In order to monopolize the resources of the capital market for its own purpose, the government, as early as 1933, virtually prohibited private capital issues, with the result that much of the larger part of all long-term lending in the capital market, during the following years, consisted of loans to the Reich.

On the monetary side, the control of profits (corporate savings) was added to the control of capital market: dividends were limited to 6% (in certain cases 8%), and the surplus had to be handed over to the government against its long-term obligations. The law stipulated enterprises to plough back their profits and to finance their capital expansion from their own resources, thus leaving the capital market free for government issues. Gradually, State control also restricted the freedom of industry to dispose of its undistributed profits. Through the 'corporate organization in industry', profits were utilized for a variety of purposes. Some of the burden of export bounties, which were granted to individual exporters to offset losses due to the maintenance of the gold parity of the Mark, was imposed on industries collectively. Similarly, the industries were forced to pay for subsidies to keep down the prices of certain goods to the consumers, inspite of increased prices paid to the producers. Most drastic of all, private industry was 'encouraged' to finance a part (30%) of the investment in factories for the production of substitute materials, under the Second Four Year Plan.

3. **Control of Labour Supply:** Towards the end of 1937, the German economy approached a state of full employment. With the growing shortage of skilled labour, State control

was extended to yet another sphere of economic system—the supply and employment of labour. During the Work Creation period, the supply of labour had been artificially diminished by various devices. This policy was now reversed. Earlier work-spreading measures—such as compulsory short time was rescinded, hours of work were lengthened, and the ban on employment of married women was lifted. During 1937 and 1938, an order—empowering the authorities to conscript labour, to transfer workers compulsorily to 'essential' industries, and prohibiting the employment and dismissal of any worker without permission of employment exchanges—almost completely abolished the freedom of domicile and work, and freedom of employment. These forceful methods were supplemented by energetic educational and other efforts to heighten the mobility of labour—such as vocational guidance and training of skilled workers, which was partly undertaken by the State, but was mainly enforced upon industry by orders requiring the employment of a high proportion of apprentices.

REICH FOOD ESTATE

The Reich Food Estate, according to the original Act of September 13, 1933, was to represent 'agriculture' in the widest possible sense. Besides agriculture proper, forestry, horticulture, viticulture, fisheries, hunting, agricultural co-operatives, whole and retail trade in agricultural commodities, and industries processing farm products—were to belong to it. Membership in Reich Food Estate was compulsory for four groups—i.e. all persons in Germany who were active as owners, landlords, tenants, or farmers of agricultural land or enterprise, (including family members, workers, and employees) : all agricultural co-operatives: all individuals and corporations engaged in wholesale trade, retail trade, processing, and converting, agricultural products: and all agricultural associations.

Administrative Structure: The head of the Reich Food Estate was the Reich Farm Leader, appointed by the Chancellor of the Reich. The three most important parts of the organization were: 'The General Staff', 'The Reich Farm Council', and 'The Administrative Division'. 'The General Staff' was divided into sections for specific problems—such as economic, legal, racial, international, and propaganda questions: and was concerned with matters of fundamental policy and the long-term programme. 'The Reich Farm Council' was a hierarchical organization on three levels—Reich, State, and district—and was supposed to advise the leaders of the territorial associations on matters of general policy.

By far, the most significant part of the Reich Food Estate organization was the 'Administrative Division', which was subdivided into three sections—'The Man', 'The Farm', and 'The Market'. The first section, 'The Man', was concerned with educational, cultural, and professional questions, with the problems of farm labour, farm youth, migration from the farm, with the relationship between landlords and tenants, and between the 'leader' and the 'follower'. The second section, 'The Farm', was concerned with the technical and scientific aspects of agricultural production: and, to some extent, took over the functions of the pre-Nazy professional agricultural organizations, devoting its attention to the improvement of agricultural book-keeping and management techniques, to taxation problems, to organized experimental stations, agricultural machines, fairs, and shows.

The third, and the most important, section of the Administrative Division, 'The Market', was intrusted with the control of production, converting, processing, and distribution, of agricultural commodities. Its various subsections carried on administrative tasks—e.g. questions of organization, legal problems, problems of agricultural credit, statistics and research, supervision of the internal operations of the Market Associations, supervision of the conduct of business on individual farms, equalization and storage problems, and problems of international trade in agricultural products. In addition, there were several other subsections corresponding to the Central and Economic Associations, each of which was supervised by the appropriate market subsection. The Central and Economic Associations were functional bodies, which made up only one part of the organizational structure subordinate to 'The Market'. The other part was territorial in nature, and consisted of State, district, and local Farm Associations.

Functional Organization: The Central Associations and Regional Economic Unions made up an all inclusive vertical structure with authority to control every stage in the life of a commodity. All in all, there were 10 Central Associations—one each for grain, livestock and meat products, milk and dairy products, potatoes and potato products, eggs, horticulture, viticulture, hops and breweries, sugar, fish and fish products. The membership of Regional Economic Union for livestock, for example, included, in a particular region, all the livestock farmers, dealers in livestock, butchers, producers of and dealers in meat products, processors of fat, and dealers in entrails. Each of the Central Associations acted as a co-ordinating and supervisory agency for the various Regional Economic Unions associated with it: and the control apparatus varied with the specific conditions in each of the 10 major branches into which agriculture had been subdivided.

Market Associations were unique organizations within the Nazy framework. They resembled the compulsory cartels and entrepreneurial associations in industry, for membership in all three was compulsory: and they were all instruments of public policy, other than private organizations pursuing only private interests. But the functional organizations in agriculture enjoyed much more power. Not only did they have jurisdiction over such matters as price, profit margins, and subsidies, but they were organized vertically so that each Central Association could co-ordinate an entire industry, and so that the organizational structure as a whole enabled the government to step in at every stage from production of raw materials to consumption of final commodities.

Territorial Organization: The territorial associations, in which membership was compulsory for the same group of persons and enterprises which belonged to the functional associations, were the administrative field agencies of the Reich Food Estate. As such, they did not share the independent legal status of the functional associations, but were subsidiary branches of the Estate. Essentially, their task had been to see that the numerous decrees and orders, issued by the functional organization of the Estate, were observed. The territorial organization, like the functional, emanated from 'The Market'. It was developed on three levels—State, district, or local Farm Associations.

The State and district Farm Associations were subdivided into three sections corresponding to the three sections of the Administrative Division—'The Man', 'The Farm', and 'The Market'. 'The Market' of the State Farm Associations was divided into subsections, which were counterparts of the functional subsections of 'The Market' in the Administrative Division—e.g. one each for grain, livestock and meat products, milk and dairy products, potatoes and potato products, eggs, horticulture, viticulture, hops and breweries, sugar, fish and fish products. By having these subsections supervise the corresponding functional associations on the regional level (Regional Economic Unions), the Nazis co-ordinated the activities of the functional and territorial organizations. This was perfectly feasible in view of the fact that the jurisdiction of the Regional Economic Unions usually coincided with that of the State Farm Associations.

Supervisory Agencies: A country as dependent upon the importation of agricultural commodities as Germany, and as burdened by an ever-declining supply of foreign exchange, must adapt its internal economy to the possibilities offered by its trade relationships with the outside world. That part of the German agricultural economy, which was sustained by imports, was not controlled by the Reich Food Estate, but by five special agencies known as 'Supervisory Agencies', which were direct administrative bodies of Department of Agriculture, and outside the organization of the Reich Food Estate. Export and import control of all kinds was handled by Supervisory Agencies. Five of the Supervisory Agencies were concerned solely with agricultural commodities—one each for grain, oils and fats, animals and animal products, eggs, and horticultural and viticultural products. The objectives of these agencies were four—i.e. to prevent imports which were considered excessive or inopportune at a specific time, to direct supplies into districts which did not produce as much as they needed, to make sure that prices prevailing on foreign markets did not affect the domestic price structure, and to direct and supervise the storing of farm products. By concentrating control over the entire agricultural supply from abroad in the hands of Supervisory Agencies, imports could be adjusted to domestic conditions created by the activities of the Reich Food Estate.

INDUSTRIAL CONTROL

The machinery set up by the Nazy government maintained the dual 'functional' and 'territorial' structure. The functional organizations were called 'Groups', and the territorial organizations continued to be known as 'Chambers'. The basic changes wrought by the Nazis provided for control of the entrepreneurial agencies by the Reich government through leadership principle, for compulsory membership in Groups and Chambers of all entrepreneurs, and for a revised hierarchical structure with both the functional and territorial organizations.

Functional Groups: The functional hierarchy consisted of National Groups, Economic Groups, and Trade Groups. On the upper level were seven National Groups—one each for Manufacturing, Trade, Banking, Insurance, Power (water, gas, electric), Tourist Trade, and Handicraft. Subordinate to each of these National Groups were various Economic Groups —31 of them belonging to Manufacturing, 4 to Trade, 6 to Banking, 2 to Insurance, 2 to Power, and 1 to Tourist Trade— 46 Economic Groups in all. The Economic Groups were, in turn, subdivided into various Trade Groups, 328 in all, the number in each Economic Group varying with its size. Many of the Trade Groups were further subdivided into Trade Sub-Groups, 323 in all. If National Group for 'Manufacturing' be used as an example, it would be found that mining, iron production, building industry, and brewing were 4 of the 31 Economic Groups. An Economic Group like 'Mining' would be subdivided into Trade Groups—such as coal mining, copper mining, polish mining. Membership for each entrepreneur and enterprise was made automatic and compulsory.

Territorial Chambers: The territorial organization, like the functional structure, was developed on three levels of political administration. Every independent entrepreneur and every independent enterprise—including domestic branches of foreign enterprises—regardless of size, was compelled to maintain membership not only in functional Groups, but also in a Chamber of Industry and Commerce. In November

1934, the individual Chambers of Industry and Commerce were consolidated on the middle level into 23 Economic Chambers, each Economic Chamber corresponding to one of 23 economic districts of the Reich. Membership in these Economic Chambers was not held by individual entrepreneurs, but by Chambers of Industry and Commerce, and by territorial subdivisions of Economic Groups. At the top, all territorial entrepreneurial bodies were consolidated into the Federation of Chambers of Industry and Commerce, successor of pre-Nazy National Federation of Chambers of Industry and Commerce.

Joint Organization: Although the structure of entrepreneurial associations was systematized, and hence considerably clarified by the Nazy reorganization, it was never actually simplified. The separation into 'functional' and 'territorial' organizations was bound to raise numerous jurisdictional questions: functional problems often had a regional aspect, and territorial problems a functional aspect. To simplify the work of two types of organizations, and to eliminate as much duplication as possible, certain agencies, on both the middle and upper levels, were given co-ordinative function. The 23 Economic Chambers were designated the chief offices for all entrepreneurial organizations in their respective districts. Each Chamber enlarged its administrative machinery for the purpose—creating a special Industrial Division for all the territorial sub-divisions of Groups in its district, a special Chamber Division for the Chambers of Industry and Commerce, and, where necessary, special Divisions for Banking, Insurance, Power (water, gas, electric), or any other major functional classification. As a result, part of the administrative machinery of each Economic Chamber reflected the functional structure of the enterprise in its district. A similar development took place on the upper level. Economic Groups and Chambers were integrated into a single top agency—Reich Economic Chamber. It had a membership of the National Groups (7), Economic Chambers (23), and Chambers of Industry and Commerce (about 100). The Federation of Chambers of Industry and Commerce, the chief agency of the Chambers of Industry and Commerce on the upper level, maintained its own legal identity, but was administered by the Reich Economic Chamber.

Groups and Chambers: The Groups and Chambers were the first and foremost instruments of the Nazy government—an elaborate organizational structure through which the government could exercise an economic control, detailed and far-reaching enough to affect the smallest businessman. Among the economic functions performed by the entrepreneurial associations were those 'connected with regulating the market'—i.e. those related to the control of production, sale or purchase of commodities, conditions of sale or delivery, or fixing of prices. The decree of November 12, 1936, transferred the powers of supervision and control of cartels, syndicates, and similar institutions from the Department of Economics to the Groups and Chambers. The economic Groups had a right to pre-examine all applications for the establishment of compulsory cartels, and all applications for decrees prohibiting the establishment of new industrial capacity, or the enlargement of existing capacity. The Chambers pre-examined all applications for exemption from the price-stop, and the Trade Groups and Trade Sub-Groups administered the reduction of prices for 'trade-marked' articles—both at the request of the Reich Price Administrator.

In the field of foreign trade, with its host of complicated laws and decress, and its maze of regulations imposed by foreign government agencies, as well as by the domestic supervisory Foreign Exchange Control Boards, the Groups and Chambers rendered invaluable centres and liaison officers between entrepreneur and the government. The later function was largely in the hands of Groups, which collected suggestions from its members as to desirable changes in the commercial policy, and assisted the Reich in its trade negotiations. The Chambers, on the other hand, maintained close contact with the Reich agencies for foreign trade, and concerned themselves with keeping entrepreneurs informed about changes in economic conditions and legislation at home and abroad. Both Groups and Chambers played an active role in the efforts to expand German export trade.

Economic Chambers: The tasks of 23 Economic Chambers were numerous and detailed. They protected and co-ordinated the common interests of the individual Chambers of Industry and Commerce in their districts. They co-ordinated the activities of all the functional organizations on the middle level. They pre-examined applications for exemptions from the general price-stop, and co-operated closely with the formation and supervision of prices. They acted as Regional Clearing Offices for distributing government orders among the entrepreneurs of specific districts, in accordance with provisions issued by the National Clearing Office—a section of Department of Economics. They made regular reports to the Department of Economics on economic conditions in their districts. Finally, they maintained close contact with all government agencies in their districts—particularly with the Trustees of Labour, Regional Labour Offices, Regional Armament Inspectors, Regional Collectors of Internal Revenue, Offices of Provincial Governors, and Offices of Labour Front.

Reich Economic Chamber: The Reich Economic Chamber was the central body, the joint representative of all functional and territorial bodies of the 'Organization of Industry'. Most of the duties of the Reich Economic Chamber were not different from those of its members on the lower levels: Its remaining duties were uniquely its own. To it was assigned the task, for example, of organizing an Appeal Court to hear suits brought against businessmen in the Honour Courts. More important was the role it played as a clearing house for all differences of opinion among different Groups and Chambers. Reich Economic Chamber was the great conciliator, reconciling differences, adjusting disputes, deciding between conflicting jurisdiction, and, in general, securing full co-operation from every office of the 'Organization of Industry'.

Nazy Cartel Policy

Not long after the Nazis seized control, they realized that the military economy, even in its earliest stages, could not tolerate, in the hands of privately-controlled, independent cartels, the economic power which the Cartel Decree had been unable to curtail significantly. At the same time, it was recognized that the cartels were superbly adapted to function as an instrument for regulating new capital investment, so important to a military economy, because of its effect upon the magnitute and composition of future production. As a result, there were enacted on July 15, 1933, two Cartel Laws which applied only to cartels and similar organizations. The other monopolies were not brought under government control at that time. Government authority over them, however, was gained a little while later.

Direct State Control: The first of the two statutes was clearly designed to increase the power of the government over cartels. Section 4(a) of the previous Cartel Decree had provided that the government could ask the Cartel Court to invalidate undesirable cartel contracts, but could not act independently and void contracts at its own discretion. In order to increase the power of the government, the first statute of 1933 gave the government authority to invalidate contracts directly. If it was deemed necessary to nullify a contract, the government was no longer to be merely a petitioner at the mercy of the Cartel Court. Instead, by a shift of authority from the judicial institution to the Department of Economics, the government was made prosecutor and judge. Power was concentrated. A more effective integration of cartel control and general economic policy was made possible. This was the importance of the 1933 amendment. In all other ways, the authority vested in the Department of Economics, by Section 4 of the old Cartel Decree, continued unchanged.

Compulsory Cartels: The second statute of July 15, 1933, was even more sweeping and significant than the first. It authorized the Department of Economics to create compulsory cartels wherever it liked, 'if it appeared to be in the interest of the enterprises concerned, and desirable from the point of view of the entire economy'. Membership in cartels, previously voluntary and contractual, could be made compulsory, and the Department of Economics was given far-reaching authority to dictate the activities of cartels, and to interfere in any and all duties, privileges, and contractual relations of cartel members. Particularly significant was the power to prohibit the establishment of new productive capacity, and the extension of existing productive capacity in any industry, and the power to determine the extent to which the capacity in specific industries was to be used. As time went on, the ascendancy of the government over all cartels was more firmly established. The rapid development of price control, of the quota system in raw materials and other commodities administered by Supervisory Agencies and Foreign Exchange Control Boards, of the new hierarchical machinery controlling industry and agriculture—all combined to rob the cartels of many of the original powers, which they had possessed in a traditional capitalist economy.

Cartel Functions: Cartels, under the Nazis, became a quasi-government agencies. In this capacity, they performed entirely new functions. Very important was the fact that in certain industries, compulsory cartels were used for preventing an increase in productive equipment, and for regulating the use of existing capacity. Moreover, the organization of cartels was of great help to the Office of Price Formation in administering prices; to the Supervisory Agencies, in regulating allocation and use of raw materials and other commodities; and to the government, as a whole, in distributing its orders, and in general in conducting its 'planned' economy. Cartels were also used in building up new industries—a function they performed by serving as agencies through which the financial resources of independent enterprises could be compulsorily pooled. Compulsory cartels, for example, were created for the development of industries producing synthetic benzine and cellulose fibre. The creation of compulsory cartels and the ever-present power to reorganize voluntary cartels on a compulsory basis, increased the stability of cartels considerably.

Reich Associations: A few days after the beginning of World War II, a new type of industrial organization was set up. It was the Reich Associations, through which the government sought to increase the concentration of industrial power. Membership was compulsory for all individual enterprises, cartels, or similar organizations in a specific industry. The Reich Associations had primarily two sets of functions: To serve the government as executive organs in the conduct of its economic policies, and to improve industrial productivity as much as possible. To accomplish these objectives, the Reich Associations enjoyed broad powers over production, processing, distribution, storage, prices, and conditions of sale: and were to pay special attention to reorganization of industries, improvement of qualities, and development of standardization. The Reich Associations were created for some of the most important industries—such as coal, oil, textile, and chemicals. Entire industries were legally converted into organizations which could commandeer their constituent parts with great ease. Their establishment, no doubt, was a great administrative improvement, and made it easier for the government to control and direct industries.

FOREIGN ECONOMIC POLICY

The Nazy commercial policy pursued two politico-economic objectives: To supply Germany with the imports required for rearmament, for the essential needs of the German consumers, and for war reserves: and to obtain for Germany an area of economic and political dependency in South-East Europe, primarily as an additional safeguard against the danger of blockade in war. The ruthlessness and efficiency with which the Nazis pursued these objectives in their commercial policy was made possible by a rigid State control and planning of the whole of Germany's foreign trade: which, in turn, was based on the development and exploitation, by the state, of the two instruments which they inherited from their predecessors—namely, Exchange Control and Clearing System.

1. Exchange Control

The first measures of Exchange Control had been forced upon Germany by the financial crisis of 1931. Confronted with capital flight, which had assumed catastrophic proportions, Germany had no choice but to suspend the free Gold Standard, and impose control of capital export. But capital Exchange Control could not alone solve the German balance of payments problem. The immediate cause of that problem was the cessation, in 1930, of the inflow of foreign capital, on which Germany had relied to cover her debt payments on private and reparations account. Germany was, therefore, suddenly faced with the task of having to create an export surplus sufficient to enable her meet her foreign obligations.

One method of removing this pressure would have been to devaluate the German currency. But unwilling to devaluate the Mark, the German government helped to achieve the same result—a downward adjustment of German prices—by the orthodox remedy of deflation. The heroic efforts of Brunning Government in this direction were not entirely unsuccessful. But what little result was achieved at the cost of growing internal depression, unemployment, and political disintegration, was more than outweighed by the fact that, in the meantime, the depreciation of the Pound and other currencies reduced the export prices of Germany's competitors: while the British policy of Protection and Ottawa further impaired German competitive ability on international markets.

As a result, German exports began to decline faster than her imports. Her export surplus, in 1932, was barely 1/3 of the 1930 surplus, and the gold and foreign exchange reserves of the Reich Bank, which had been cut in 1/2 by the flight of capital during 1931, continued to decline. In November 1931, a system of Exchange Rationing was introduced, which allocated to accredited importers a percentage of the foreign exchange used by each firm during a base period—a quota which was gradually reduced from 75% to 50%. In 1932 also, the first attempts were made to evade foreign exchange difficulties by organizing foreign trade on a Clearing basis, and to compensate German exports for the devaluation of the Mark by export subsidies, based on concealed devaluation.

The decisive factor, which changed both the character and functions of Exchange Control in Germany was the abandonment of the hopeless policy of deflation by the Papen Government in 1932: and the initiation by the Nazis, in 1933, of their vigorous expansionist recovery programme. The result of the revival of economic activity in Germany was a rapid increase in demand both for the raw materials needed for the expansion of internal production, and for foreign consumers' goods. On the other hand, German exports continued to decline—partly because the rise in German prices, which was not entirely avoided, increased the divergence between German and foreign prices: partly because of outside factors especially the devaluation of the Dollar in 1933-34. Moreover as raw material prices rose rapidly with the beginning of world recovery, Germany's terms of trade began to move sharply against her.

'New Plan'

Under this manifold strain, the German foreign exchange position rapidly deteriorated during 1933-34. In the meantime, German system of Exchange Control was breaking down: between February and March 1934, the quota of foreign exchange allocated to importers was reduced from 50% to 5%, and finally a day-to-day allotment, based on the Reich Bank intake of foreign exchange. In these circumstances, the Reich Bank, in September 1934, adopted a so-called New Plan, which replaced the old system of percentage allocation of foreign exchange, by a system under which a foreign exchange certificate had to be obtained for each individual transaction from any one of 27 Import Control Boards, set up under the Plan, before a definite order could be placed and goods imported.

The primary object of the New Plan was to solve the international payments problem by holding imports strictly to the available amount of foreign exchange: and by diverting purchases, as far as possible, to countries with which Germany had Clearing Agreements. In addition, Import Control was to ensure that preference was given to imports of raw materials, particularly needed for rearmament, over imports of manufactures and foodstuffs to satisfy consumers' demand. It soon appeared that control of imports, involving rationing of imports, had, of necessity, to be extended to all subsequent users of the imported raw materials. At the same time, the new power of granting or with-holding import permits enabled the government, through the agency of Import Control Boards, to extend its control of real investment, production, and prices in pursuit of its internal economic policy.

With the adoption of the New Plan, therefore, State control of German foreign trade became complete. On the import side, the volume, quality, price, and source of every article was controlled directly. On the export side, the New Plan did not contemplate direct control, except for prohibitions on the export of certain raw materials. But, indirectly, State control of imports obviously made the German exporter completely dependent on government foreign trade policy.

2. Clearing System

The technically most perfect form of barter trade, which gradually ousted the earlier methods and became the framework of nearly 65% of Germany's foreign trade, was the system of Clearing Agreements which the government concluded with the whole country. The essence of a Clearing Agreement consisted in the establishment, in both countries, of an account into which importers (and other debtors) trade in their own currency, the sums they owed to their creditors in other country, and from which exporters to (and other creditors of) the other countries were again paid in their own currency. The system could be extended so as to include not only commercial, but all other types of international transactions—such as debt payments and others. Clearing, on the other hand, initiated a new problem of uncleared balance i.e. there was no certainty that the total trade between two countries would automatically balance.

One method of achieving the necessary balance was to allow the exchange rate for each particular Clearing Account to fluctuate freely. In practice, that violent fluctuation so greatly increased the risk element that this method was rarely used. In the absence of freely fluctuating exchange rates. however, the balance could only be achieved by direct control of trade. In practice, therefore, the Clearing System presupposed the considerable measure of State control of foreign trade in both countries. On the other hand, the Clearing system itself strengthened the powers of control of the governments concerned. The fact that each Clearing constituted, as it were, a close system, resulted in the establishment of multiplicity of different rates of exchange between the respective currencies rates, which were often fixed afresh for each major transaction. Though the exchange rates were, in theory, fixed by agreement, this possibility provided the government the superior bargaining power with a supple instrument for controlling the volume and terms of trade.

The only difference between Clearing and Free Exchange trades was that—whereas under the Free Exchange System a country whose foreign exchange reserves were exhausted could not import until it had acquired the necessary foreign exchange: the Clearing System enabled a country to take initiative by increasing its imports (increasing her Clearing Balances in the importing country). For a country like Germany, which, in 1933, urgently required foreign imports, but whose export trade was hampered by an overvalued currency and foreign trade restrictions, this was in itself an important advantage. The possibilities of Exchange Rates manipulation, and the accumulation of Clearing debts, together, turned the Clearing System into a powerful weapon, of which the Nazy government made full use in its foreign trade policy.

II Foreign Trade Relations

The New Plan, in laying down the policy of restricting imports to the available amount of foreign exchange, merely underlined the obvious fact that the growing German import requirements would be satisfied only by an expansion of German exports. The Geman exports, however, were hampered by the overvaluation of Mark, which maintained German export prices considerably above the competitive level on international markets. On the face of it, therefore, the Nazy foreign trade policy, after 1934, was dominated by the efforts of the Nazy government to overcome this artificial and self-inflicted handicap. The methods which were used to stimulate exports varied considerably. Broadly speaking, it is possible to distinguish between four types of policies which Germany adopted respectively towards four groups of countries.

1. Free Exchange Countries

With a number of important countries—including especially Great Britain, British Dominions, and U.S.A.—Germany did not conclude Clearing Agreements. Imports from these countries, therefore, continued to require foreign exchange, to be obtained either by increased exports to the country concerned, or to countries which were prepared to make available to Germany free foreign exchange or gold. In her trade with these countries, Germany had to resort to export subsidies.

The funds for this purpose, during 1933-34, came almost entirely from windfall profits earned through repatriation of German bonds and scripts issued in lieu of debt payments. The imposition of Exchange Control had naturally led to a fall in the prices of German bonds abroad. As early as 1932, the Reich Bank had taken advantage of this by permitting exporters to purchase these bonds at their low prices and to use the profit from the resale in Germany to lower the prices of their exports, provided these exports were additional. In

1933, this ingenious device was extended to debt payments, Germany permitting transfer of interest and amortization payments only at a discount (which her creditors were prepared to accept, rather than have their accounts blocked in Germany). When the lack of foreign exchange compelled the German government to stop these capital exports by a complete transfer moratorium, this source of funds dried up.

From 1935 onwards, export subsidies were financed primarily by a levy imposed on German industry, each branch of industry being compelled to contribute part of its profits on sales in the home market. Another method of subsidizing exports was to discount Export Bills at lower rates of interest than others. As financial subsidies proved inadequate to ensure the requisite volume of exports, the German government endeavoured to counteract this tendency by offering special inducements to exporters—such as giving absolue priority in the allotment of raw materials to the manufacturers of goods for export, and distributing government orders among industrial concerns in proportion to the efforts made by each in the promotion of foreign sales. In 1938, the government even resorted to direct control in the form of export quotas assigned to each industry, with penalties for failure to fulfil them.

2. Creditor Clearing Countries

A number of westren European countries—including France, Switzerland, and Holland—had concluded Clearing Agreements with Germany, in 1932, in order to earmark proceeds of German export surpluses for debt payments to their nationals. But the Clearing System made it impossible to increase imports freely without immediate payments. From 1933 onwards, therefore, Germany increased her purchases from these countries to such an extent (their exporters being only too pleased to sell) that not only did the German export surplus disappear, but Germany accumulated substantial debts in her Clearing Accounts with these countries. When the latter began to realize that they were in fact selling goods to Germany without immediate prospect of any repayment in the form of German exports, they reacted by curtailing exports to Germany: and in the case of France, by substituting a Payments Agreement for a Clearing Agreement—thus making a repetition of experience impossible. By rationing exports, these countries were able to force Germany gradually to reduce her Clearing debts. For Germany, on the other hand, trade under these conditions was just disadvantageous as with Free Exchange Countries, and during the following years, trade with these countries stagnated, or declined.

3. South Eastern Europe

All these countries—including Yugoslavia, Rumania, Hungary, and Greece—were producers of agricultural commodities, especially wheat and other cereals, pigs and tobacco; and depended for their necessary imports of manufacturers on the sale of their agricultural surpluses. With the collapse of agricultural prices during the depression, they altogether ceased to be able to compete with the oversea producers in international markets. At the same time, most of their former European buyers were closing the doors to their products. In this desperate situation, Germany appeared as their 'savour'. Germany was prepared to buy Rumanian wheat, Hungarian maize, Yugoslav pigs, and Greek tobacco, at higher prices than world market prices, not only because purchases from these countries did not require payments in free exchange, but the Nazis were out to obtain economic and political control over this area in the event of war.

Germany restored to innumerable devices to increase her stronghold on Balkan economies. The simplest and the most effective was the accumulation of Clearing debts. During 1935 and 1936, Germany increased her purchases through her Clearing Accounts. As her Clearing debts accumulated, the Balkan countries were unable to obtain payments, and, in order to reduce the frozen balances, the governments of Balkan States had to induce their importers to purchase commodities in Germany rather than elsewhere. Balkan countries, unable to sell their surpluses at remunerative prices elsewhere, had no choice but to continue selling to, and therefore buying from, Germany.

Other methods, by which the Nazis heightened the economic dependence of Balkan countries on Germany, included the dumping of Balkan products below cost price in other countries. This had twofold advantage: spoiling these foreign markets for Balkan exporters, and bringing in free exchange for Germany. Germany also made lavish grants of long terms.

This actually cost Germany nothing, for the postponement of payment by the Balkan importers caused a lack of funds in the Clearings, with the result that the central banks of the Balkan countries had to advance money to their exporters—the credits in fact being financed, not by Germany, but by the Balkan governments. Moreover, Germany entered into direct barter agreements for the exchange of specific commodities on the basis of similar large-scale credits. Thus, in October 1938, Turkey was granted a credit of 150 million RM, which was to be repaid in Turkey primary products. Similar large grants were made in 1938 and 1939 to Poland, Bolivia, and Argentina. In addition, German willingness to sell second quality armaments, often on credit, which, in turn, required further imports from Germany of ammunition, spare parts, and replacements.

Germany also applied political and military pressure. Already, by 1935 and 1936, Germany had succeeded in strengthening her economic hold on Balkan countries to such an extent that she was able to exploit her position by turning the terms of trade with the Balkan countries in her favour—e.g. by insisting upon a higher exchange value of Mark in Clearing Agreements, by charging high prices for her exports, by delivering goods of inferior quality, or even goods which these countries did not want, and by refusing to deliver goods which could be sold in other countries for free exchange.

4. South America

Next to South Eastern Europe, South America provided the main sphere of Nazy trade expansion. Like the Balkan countries, most of the South American Republics had been forced, during the depression, to impose Exchange Control, and were prepared to trade with Germany on a barter or Clearing basis. Like the Balkan countries, these countries too were saddled with large agricultural surpluses. On the other hand, owing to the fact that South American countries were able to sell at competitive prices, and had strong financial and trade connections with the U.S.A. and Britain, Germany's position toward them was not nearly as strong as in South Eastern Europe.

During 1934-35, South American trade drive was based on the system of Aski Compensation. Since the value of the

Marks (Aski) was allowed to fluctuate (at varying discounts) in accordance with supply and demand, this method amounted to concealed export subsidies, borne mainly by German consumers of South American goods. During 1935, Germany replaced Aski Compensation by what amounted to Clearing Agreements (though the name Aski was retained), with fixed exchange rates, under which Clearing debts soon accumulated. But from 1935 onwards, the accumulated Clearing balances, and the dependence of the South American countries on the German market soon placed Germany in a strong position, and took full advantage of her position to turn the terms of trade in her favour.

LABOUR POLICY

The last century witnessed gradual changes in the traditional market mechanism as large business organizations suspended competition, and government took steps to protect their citizens from the harsher effects of the free play of supply and demand. This development showed itself clearly in the labour market of pre-Nazy Germany. Competition among the purchasers and sellers of human labour, so characteristic of a 'free' labour market was rapidly disappearing. Large number of sellers abolished competition among themselves by joining trade unions. Purchasers of human labour were united in employer associations which bargained collectively with the trade unions. In addition, the government took an active part in the determination of wages and salaries.

Accompanying the disappearance of competition from labour market, was a growing recognition of the right of organized labour to participate in the making of decisions which affected the welfare of workers. Between 1918 and 1927, labour made great strides as it won new opportunities to be heard. In the labour courts, in the social insurance institutions, and in the employment exchange system, representatives of organized labour performed important functions. Every plant, factory, and office had its Work Council, which acted collectively on behalf of the employees of particular enterprise, supplementing the trade unions, which represented the workers of an entire industry.

These relations were among the first targets of the Nazy regime. As soon as it seized control, it wiped out every semblance of independent collective action by labour. Labour representation was eliminated. Trade unions were destroyed. The right to strike was abolished. Collective bargaining, and the vast machinery for settling labour disputes were discontinued. As a substitute for the trade unions, the Nazis imposed the German Labour Front, a Party-dominated organization of all men and women in the country who performed 'human' labour, employers and employees alike. Wages, salaries, and working conditions were now fixed by the Trustees of Labour, government appointees from whose decisions there was no appeal. With the passage of time, government controls tightened, labour was made increasingly less mobile, competition among employers for workers disappeared, and complete regimentation became the order of the day.

'Enterprise Community': Employer-employee relations in Nazy Germany developed within the framework of the Law Concerning the Regulation of National Labour, promulgated on January 20, 1934. The misleading terminology of the Act fails to obscure its purpose, which was to supplant the traditional contractual relationship called an 'enterprise community', in which the entrepreneur was the 'leader', and the wage and salary earner the 'follower'. The name 'enterprise community' was designed to deny the existence of a conflict of interest between capital and labour. As leader, the entrepreneur assumed sole responsibility for the management and conduct of a business, followers having no right to intrude with requisities or recommendations. The determination of conditions of work was a part of this entrepreneurial responsibility. Those employing more than 20 persons were compelled to make public a set of 'Enterprise Rules', fixing hours of work, wages, salaries, and other working conditions. These basic rules, which invalidated all earlier arrangements, were to be so drawn as to permit additional remuneration to workers on the basis of individual efficiency.

'Special Committee': Allegedly as a check upon the entrepreneurs, the law provided for a 'Special Committee' to review the Enterprise Rules and other measures that might increase productivity, advance industrial safety, or improve the spirit of members of the enterprise community. If a majority of the Committee decided that a decision of the leader was not in harmony with the economic and social interests of the enterprise, it could file an appeal with the Trustees of Labour. It is difficult to believe, however, that the Special Committee was an effective rein on entrepreneur. Its powers were only consultative. Even though representatives of the followers made up the bulk of the Committee, they were chosen from candidates nominated by the entrepreneur in agreement with the Nazy Party. Moreover, the leader was himself not only the chairman but a voting member of the Committee, not merely the party with whom the Committee negotiated.

'Trustees of Labour': Trustees of Labour were government officials, appointed by the Federal Department of Labour, and subject directly to its instructions. Originally, there were 13 of them, but the number grew to 20, one serving in each of the 20 districts into which the country had been divided for the purpose. Since the Nazis had abolished trade unions, employers' associations, arbitrators, arbitration boards, and the entire institutional structure within which collective bargaining took place, they were in need of an agency to perform analogous functions. Trustees of Labour were that agency.

Their task was to secure 'industrial peace', which, in practice, meant that theirs was the power to dictate and enforce conditions of work. According to the law, a Trustee of Labour, after consulting a 'Committee of Experts', appointed by him, could issue general directions for Enterprise Rules, or individual labour contracts. The Trustee could even go further. If he felt that the protection of employees in a particular group of enterprises required it, he could, again after consulting the Committee of Experts, replace Enterprise Rules by 'Industry Rules', which fixed minimum conditions of work. These rules could not be appealed : The decision of Trustee was final in the matter.

Moreover, they were to supervise the establishment, as well as the activities, of the Special Committees : and, under certain circumstances, had the right to appoint or dismiss the workers' representatives on these Committees. In addition, they had powers with regard to dismissal of employees, with regard to Honour Courts; and, according to the law, could be assigned other powers by the Department of Labour. Theirs was also the task of making available to the government information concerning developments in industrial relations.

'Social Honour Courts': 14 'Social Honour Courts' were established to maintain discipline and punish violators of 'social honour'. Offences against social honour are committed under four circumstances—i.e. if an employer abuses his power in the firm, maliciously exploits the worker, or wounds his sense of honour: a worker endangers industrial peace by maliciously provoking other followers: a follower repeatedly makes unfounded or frivolous complaints or proposals to the Labour Trustee, or obstinately disobeys written instructions: and members of the Special Committee communicate, without authority, confidential information or manufacturing business secrets. While the employers and workers came under the jurisdiction of Honour Courts, the primary emphasis was placed on offences of labour against the employer and establishment. Only the first rule pertained to offences committed by the employers: and there was a strong possibility that the employers proceeded against represented establishments which had not enthusiastically sponsored the Nazy regime.

'German Labour Front': Another institution which functioned in the labour sector of the economy was the German Labour Front, legalized not by official statute, but by an order of October 24, 1934, issued by Hitler. Labour Front was organized on a functional and territorial basis, and run in accordance with leadership principle. Officially, membership was not compulsory: any gainfully occupied person, wage earner, salary earner, entrepreneur, or professional could become a dues-paying member. But the pressure to join was so strong that it was unlikely that many eligibles failed to become members. Membership was compulsory, however, for certain organizations—e.g. Reich Economic Chamber, all Economic Groups, all Chambers of Industry and Commerce, all Chambers of Handicraft, Reich Food Estate, and Reich Culture Board.

The Nazis often fostered the impression that the Labour

Front was the successor of the trade unions, exercising similar functions. In fact, Labour Front was neither an organization for the workers, nor by the workers. It was primarily concerned with supervisory and welfare work. The specific functions officially assigned to the Labour Front included: enforcement of protective labour laws, supervision over working conditions, provision of legal advice to its members, representing them before labour courts and insurance authorities, and providing vocational guidance. In addition, it was to concern itself with welfare problems, housing, aid to workers in plants, and with other functions—such as 'Strength Through Joy' and 'Beauty of Work'. 'Strength Through Joy' was mainly concerned with the administration of sports, recreation, and educational services. While 'Beauty of Work' co-operated with the factory inspections for the eugenic and aesthetic improvement of working places.

Conclusion: With the triumph of Fascism in Germany, labour suffered the most severe setback of modern times. Every one of its free and independent organizations was abolished. Social victories that had taken decades to win, were wiped out by a few decrees. Once again, the worker was without collective strength: Instead, the workers became automatons in the service of a Military State—a State which dictated the type of work, the place of work, the hours of work, and the income of work. Fascism, thus, transformed the working class into an unorganized and unorganizable mass, as powerless as a group as were the individuals who composed it: a mass unable to formulate its own objectives or crystalize its common will, incapable of acting as a pressure group, or of educating itself to fight for a better life: a huge amorphous mass easy to manipulate.

SOCIAL INSURANCE SYSTEM

Germany was far ahead of other countries in the establishment of social insurance schemes for workers. Bismark, who introduced them, is said to have been inclined toward State Socialism (which accepted the established government, but wanted it to undertake a reformist programme).

1. Accident Insurance: The accident insurance, as provided by the Code of 1911, was applicable to nearly all workers and superior staff drawing a salary of less than 5,000 Marks a year. Every employer was required to be a member of a mutual insurance association. The funds for the scheme were provided entirely by employers, while the State guaranteed the solvency of the insurance associations. The scheme provided for all expenses of medical attendance, including surgical operations: cash benefit, being a percentage of wages for varying period, according to the extent of injury: and, in case of accidental death, burial expenses, and pension for widow, children, and dependents.

2. **Sickness Insurance:** The sickness insurance, as provided by the Code of 1911, was applicable to all workers whose income or wages were below 2,000 Marks a year. (Later on, the limit was extended to annual incomes upto 3660 Marks a year). The funds were raised from contributions by employers and employees. The rates of contribution varied from area to area, and from industry to industry, according to their income: but generally, the employers and employees contributed in the proportion of 1/3 and 2/3 respectively. The scheme provided for medical and surgical treatment, hospital and home care, and burial expenses in the case of death: medical attendance for wife or husband (as the case may be) and children, if 1/2 the cost of medicines were paid by the insured member: cash allowance to the member, the amount of which varied according to the length of illness: maternity benefits to female members for 4 weeks before and 6 weeks after confinement: and cash allowance to wife and children.

3. **Old Age and Invalidity Insurance:** As provided by the Code of 1911, every worker above the age of 16, and certain salaried employees with annual income below 2,000 Marks, were required to insure against old age and invalidity. The necessary funds were raised from equal contributions from employers and employees, and a grant by the State. The scheme provided for an invalidity annuity, when, by permanent invalidity, a member's earning capacity was lost, to the extent of 2/3 (afterwards 1/3): and an old age annuity to all members after attaining the age of 70 (afterwards 65). The survivor's insurance, though combined with the old age and invalidity insurance, was a separate branch. It provided

for 3/10 of the deceased husband's pension, plus an imperial subsidy of 50 Marks to an invalid widow, so long as she remained unmarried. Similarly, an imperial subsidy and pension were provided for orphans until they attained the age of 15. There was a limit to the total pension so payable.

4. **Unemployment Insurance:** Unemployment insurance scheme, introduced in 1927, applied to all those workers to whom the sickness insurance applies, with the exception of certain classes. Contributions are paid by employers and employees in equal proportions. The scheme provided for a cash allowance for a limited number of weeks, after he has paid a certain number of contributions. Workers over 40 years of age are paid benefits for longer periods. With the sanction of Minister for Labour, short time grants are also given. The insurance against sickness also continues to run during the period of unemployment.

The National Socialists continued all the four insurance schemes, with certain modifications regarding benefits and their duration. In 1934, an Act was passed to consolidate all the systems. To supplement the social insurance benefits to workers in certain cases, they started a voluntary organization—known as 'National Socialist People's Welfare Organization'. The activities of this organization consisted of care of mother and child, child welfare, unemployment assistance, war victim relief, care of rentier, aged, and infirm. It had the largest membership of any voluntary relief organization in the world. In 1935, its membership was 4,700,000, maintained 13,000 creches, and 500,000 beds.

TRANSPORTATION

When the 'Estate of Industry and Trade' was set up early in 1934, 'Transport' formed a part of the Estate. But later, in September 1935, it was considered expedient to establish a separate body because the government owned 80% of all transport enterprises, and the problem of control was considerably different from that in other areas of the economy. In order to ensure uniform administration, the 'Organization of Transportation' comprised all private transport undertakings, as well as those of the Reich States and municipalities. At the head of the organization was the Minister of Transport, assisted and advised by a 'National Transport Council'. The Minister not only dictated freight and passenger rates, but also controlled other important aspects of transportation—e.g. construction of equipment, schedules, and hiring of personnel.

The organization was similar in structure and functions to the Estate of Industry and Trade, with which it was connected through representatives in the Reich Economic Chamber. Structurally, it was divided into 7 functional bodies, and 14 regional and sub-regional divisions. Functional bodies were—sea-going shipping, inland shipping, motor transport, carrier services, rail vehicles, forwarding agencies, and auxiliary transport services. It provided a medium for unifying services through each geographical area, and machinery for effective division of traffic by types and regions. Under its general supervision, compacts were made for interchange of traffic at given points and at given rates.

Each organizational group or unit was run on the leadership principle, and gave advice to members on trade subjects only. Advisory Councils for various functional and regional sub-divisions acted as auditors. They must be consulted before the Budget for any functional or regional Group was drawn up. One meeting each year was held by each Group, when a resolution by secret ballot was submitted to determine whether the director of the Group enjoyed the confidence of members. Progress reports and financial statements were also read.

Volksauto: Although Germany was the second biggest industrial country of the world, she was far behind other Western powers in motorization. The number of automobiles had doubled in the five years of Hitler's regime: but, in 1938, there were still less than 15 million passenger cars—or 1 automobile for every 50 persons, as compared with 1 automobile for every 5 persons in the U.S.A. Increased production, which was largely the result of reduction in automobile taxes and a rise in the national income, was thus to be further stimulated by the ingenious Volksauto Scheme.

The production of the car was planned at Fallersleben, where, according to Labour Front Head Dr. Robert Ley, was then being built not only the biggest automobile factory in the world, but the biggest factory in the world of any kind. Toward its construction, the Labour Front, which had in 1938 an annual income of almost 400 million RM, had already advanced 50 million RM. The Labour Front also instituted a 'Pay-Before-You-Get-It' instalment plan, similar to that used by private building and loan associations in Germany. According to this plan, every would-be-purchaser was to save 5 RM per week for the car, or sums in multiples of 5, which were to be paid by means of purchasing a saving stamp and pasting it upon a card. When 750 Marks had been paid, the buyer was to receive an order number, entitling him to a car when the factory was able to deliver it. The total amount to be paid amounted to 1,190 RM.

This instalment pre-financing created an enormous backlog of orders for after the war, and at the same time forced additional saving during the war. The Volksauto represented serious competition in private enterprise in the small-car market. Raw materials were reserved for its manufacture. All advertising and promotion costs were saved, because the whole National Socialist regime, including the press, was enlisted in its promotion. The dealer's profit was also saved, because the dealer was the far-flung organization of Labour Front.

Shipping: Private shipping also received special attention from the government. Since May 1933, the Nazis accorded subsidies to German shipping companies as compensation for losses incurred in competition with foreign competitors. In addition, compensatory grants were available to owners who suffered losses as a result of being forced to sell foreign exchange to the Reich Bank. As a part of the Public Works Programme, German shipping companies, which placed contracts with German yards for reconditioning, replacements, and new constructions, could obtain a government grant to the extent of the value of the order. A vigorous campaign, supporting the use of German flag by shippers, brought increased business to German shipping and other nationalities using German ports, mainly at the expense of the tonnage under the British flag. The government, moreover, assisted the financial reorganization of the Hamburg-American Line and the North German Lloyd.

FEATURES OF NAZY ECONOMY

The triumph of Fascism in Germany, early in 1933, meant three major changes in the economic system of Germany. The market mechanism gave way to a co-ordinated system of government intervention. The free and independent organizations, which labour had created to strengthen its bargaining position, were destroyed. Political democracy—an institution of great consequences, especially in a country like Germany where government had always been active in economic life—was abolished and replaced by a ruthless political dictatorship. Below an attempt is made to sum up the salient features of the National Socialist economic system, as it took shape during their regime.

1. **Regulated and Disciplined Economy**: It was a cardinal tenet of the Nazy Party that the economic order should be based on private initiative and enterprise, though subject to guidance and control by the State. (The most conspicuous exception to this—Herman Goering Works—was due to quite exceptional circumstances). Thus, the great stress was laid on the value of personal achievement and emulation as a spur to action. It must be recognized as a major factor in the German economic recovery that, on the one side, there was a central will capable of quick decision and armed with supreme authority, while on the other, there was a highly disciplined organization of productive forces of the whole economy. The major decisions on policy were finally taken at the top by Field Marshall Goering or one of his subordinates, but the execution of the policy was left to the individual Group or Sub-Group concerned to carry out as it found best. So far as price-fixing and marketing were concerned, the control of industry was chiefly in the hands of cartels: and although these were subject to certain supervision by the Groups, the latter were forbidden to take any direct action in the determination of marketing conditions and price policy. The general policy then was to make as much use as possible of the machinery of 'self-government' in different parts of the economic system.

2. **Agricultural Policy**: German agriculture was thought of as a way of life, rather than only one of many ways of

earning a living. German peasant was taught to regard himself as the backbone and aristocracy of the nation, the custodian of purity, and vigour of the German race. The Hereditary Farm Law—with its creation of a great class of peasant holdings, which were entitled from father to son, and free from the possibility of mortgage indebtedness in future—was an outstanding example of this attitude. The whole of agriculture was organized as a complete and a distinct entity within the Reich Food Estate. A comprehensive marketing organization was set up, involving the control of production and distribution at every stage from the farmer to the consumer. The farmer received neither a minimum nor a maximum price, but a 'guaranteed' price for his produce: while for each succeeding stage until the produce reached the consumer, prices were fixed on a 'reproduction cost' basis—allowing the merchant, the miller, the manufacturer, the retailer, and so forth, their costs, together with a standard rate of profit on the turnover. The aim was to protect the farmer from the ordinary fluctations of market prices and to give him economic security, so that he could carry out his main duty of supplying the basic food requirements of the German people.

3. **Self-sufficiency**: The policy in this respect was to become self-sufficing in those foreign foodstuffs and raw materials, which, if they were cut off in case of war or as a means of political and economic pressure in times of peace, would bring disaster to the State. Thus, plastic materials took the place of iron and other metals : output of aluminium, magnesium, and low-grade iron ore was greatly expanded: synthetic rubber replaced natural products: and staple fibre, cotton and wool.

4. **Decentralization of Industry and Population**: The Nazis held that the ordinary industrial town, as it grew up 60 or 70 years before 1933, with its many tenement dwellings, in which each worker occupied a flat or one or two rooms, was a monstrocity. They, therefore, replaced these urban agglomerations by a decentralized type of industry, small industrial towns being scattered about the country side. The idea before them was that each worker should live in his own house with a garden or allotment. Special facilities, in various forms, enabled him to buy his house by payments spread over

a long term of years.

5. **Labour Policy**: The Nazy State professed to guarantee to all its citizens to provide them with the means to work. As a corollary to the recognition of this right, the State imposed duty to work, and this was a far-reaching obligation. Trade unions were abolished. Strikes were prohibited, and all disputes were required to be submitted compulsorily for arbitration. Thus, the workers became automatons in the service of a Military State—a State which dictated the type of work, the place of work, the hours of work, and the income from work. German worker, under Nazy regime, therefore, was little better than a serf, with no liberty of action or movement.

6. **Stable Wages and Prices**: The level of minimum tariff rates was kept unchanged since 1933, though there were considerable increases in actual earnings and still more in weekly earnings—especially in the production goods industries—owing to rise in efficiency, scarcity of labour, extension of piece-wages, and overtime. The basic efficiency rates, however, were not altered, and the most important factor making for a general rise in prices was thus eliminated. Prices were subjected to a control of increasing intensity, culminating in the Wage Stop Decree of November 1936, which imposed a general prohibition on all price increases without the express sanction of the Reich Commissioner for the Formation of Prices. Since 1933, a large number of prices had fallen as a result of State intervention, but still more had risen. However, the net result was a rise of only 13% in the general wholesale price index number between 1933 and March 1938. When it is remembered that, in March 1938, Germany was in a state of full employment, that there was an extreme scarcity of labour, and that many of her most important industries were working to capacity with heavy overtime, this relative stabilization of wages and prices must be regarded as a very remarkable achievement. It is certainly unique in the economic history down to the present time.

7. **State Control over Investments**: Unlike the American experiment of the New Deal, the Nazis in their recovery measures laid predominant emphasis upon investment, as contrasted with direct transfers to consumers. They believed

that work and production alone constituted the real sources of wealth of community, and relegated money to the subordinate, though very important, role of financing investment in all its forms—chiefly output in the production goods industries—and left it to the investment and employment thus created to produce incomes and savings. While recovery was directly based upon the expansion of State investment, at first in the form of public works but later to be reinforced by rearmament expenditure, the most essential feature was the control of the volume and direction of private investment. In place of the ordinary profit incentive in a free economic system, there was a careful and thorough regulation, initially designed to prevent mainly over-investment in particular industries, but subsequently extended to the general allocation of investment in accordance with its importance for the needs of the State.

8. **State Control over Foreign Exchange:** By the establishment of a rigid and highly effective control over the foreign exchange, the German economy was, in a large measure, though by no means completely, rendered independent of fluctuations in the outside world. Under these conditions, external changes could alter the total volume of Germany's foreign trade, but could not cause wide divergences to occur between the value of its imports and exports as a whole. Down to the end of 1937, it was in fact possible to preserve a favourable balance of trade, and to redeem a considerable part of the foreign debt, whose existence was so great a handicap to Germany's freedom of movement in her commercial relations with foreign countries. As a further result of foreign exchange control, the internal monetary and price structure was divorced from world price movements, and from the influence of gold .

9. **State Control over Money Markets:** The role of the rate of interest, as an index for the distribution of investment, was greatly restricted. And once the rate of interest was reduced by deliberate measures to a level, which was low in relation to the prospective return on capital, it was stabilized at that level by means of an appropriate manipulation of the money and markets. At the same time, the law preventing the distribution of dividends in excess of 6%, together with

the control over new capital issues, greatly lessened the importance of the stock exchange as a market for dealing in old shares, and thus eliminated its influence as a potential disturbing factor in the economy.

The net result was a 'planned' economy: but one wholly unlike the democratically planned economies that have been for Great Britain and United States, and different from the completely organized and State-owned economy of the Soviet Union. It was a system of totalitarian system of government control within the framework of private property and private profit. It maintained private enterprise and provided profit incentives as spurs to efficient management. But the traditional freedom of the entrepreneur was narrowly circumscribed. A vast network of organizations was created to embrace individuals, corporations, manufacturers, farmers, dealers, small business and large business—in short every factor of production, distribution, and consumption. By dominating this organizational structure, through which orders could be issued to every businessman in the country, large or small, and by insisting upon strict obedience from all, the Nazy State obtained complete control over the economy without acutally owning the means of production.

'GERMAN FEDERAL REPUBLIC'

To-day there is no Germany. Two Germanies exist: The German Federal Republic (Bundes Republik Deutschland), the political organization of three Western zones—American, British, and French—and the People's Democratic Republic, set up by the Russians in their zone. In area, the present Federal Republic (Western Germany) comprises only 52% of the Reich of 1937. Before the war, this areas contained 57% of the population of the Reich: now it holds 75% of the German nation.

Population: Postwar migrations, voluntarily as well as forced, have squeezed into the narrow area of the Federal Republic about 8 millions of Germans expelled from areas now held by Poland and U.S.S.R., as well as German-speaking people from the U.S.S.R., Czechoslovakia, Hungary, and Satellite States. To this number should be added about 2 millions, who have either been expelled or who have voluntarily, and illegally, crossed from the Russian zone to the West. In 1939, there were 39.3 million people in the area that is now Federal Republic. In 1950, the census showed 47.7 millions, of whom 25.3 millions were women and 7.8 millions were Germans expelled from other territories. By the middle of 1952, there were 48.5 millions.

Food Supply: The separation of W. Germany, with its concentrated urban centres in the Ruhr and Rhineland, from normal sources of food supply, together with the sudden influx of millions of additional consumers, has raised a serious problem of food supply. The food-producing capacity of W. Germany is far less, absolutely and per capita, than that of the old Reich. The Germany of 1939 produced about 80% of its food, but the principal surplus areas (grain, sugar, potatoes) are now under Polish and Russian administration. W. Germany is a deficit area. With only 45% of the arable land of prewar Germany, it now supplies from domestic sources about 55% of its food, the remaining 45% of the food consumed being supplied by imports—principally from the western hemisphere. Food imports, on a large scale, are now a permanent feature of the W. Germany. This means that W. Germany, if it is to attain viability even at the present low standard of consumption, must export on a large scale, and these exports must consist, as in the prewar days, predominantly of manufactures.

Industrial Capacity: Hitler's Germany was a going concern. Since the establishment of the Zollverein in 1867, Germany had come to be (with the exception of Russia) the largest free trade area on the Continent. Inside its limits, German industry became an organic whole, with well-defined geographic specialization and active internal trade. But now the line separating Russia from the western zones arbitrarily divides a closely integrated economic structure. For example, it separates the textile factories of Saxony from the plants in the Ruhr which furnished their machinery, and from the chemical works in the Rhineland which furnished dyestuffs. It separates the coal mines of the Ruhr from Berlin firms that supplied electric motors. Thousands of long-established business and banking connections were suddenly disrupted. Thus, as the result of political dismemberment, none of the parts of the German economy can function as effectively as before. The new Republic contains only 60% of the industrial resources of the former Reich.

Miraculous Recovery

But the effects of division have now been overcome to a remarkable extent. Trade agreements have partially offset the results of splitting an integrated economy. True, a gap still remains in the Federal Republic's supplies of home-grown food, and this affects the balance of payments. In general, however, the problem caused by partition has changed: it is no longer one of supplies, but of lost markets. The upward surge of industrial production, since the Currency Reform of June 1948, has been impressive. In November 1951, a peak of industrial production was reached, when the index figure (1936: 100) rose above 150. It was below 140 in 1952, but the signs are that the trend is slightly upwards again. Industrial wages (1948: 100) per hour are now about 192, as against only 93 in 1949: while the cost of living index was 168 in July 1951, as against 160 in 1949.

There was nothing miraculous about the recovery of W. Germany. On the contrary, it has been a plain example of natural cause and effect. First, there was the Currency Reform, and the accompanying restoration of freedom to the price system. Together, these actions put money back in its rightful place as the 'hair-spring' of the whole economy. Second, American aid primed the pumps by providing a flow of raw materials and food. Third, a skillful financial policy has shown how both taxation and credit can be manipulated so as to favour investment and to restrain consumption. These three factors were inter-dependent. The Currency Reform could not have succeeded without the food and raw materials that American aid supplied: and the currency would have collapsed again if it had not been for the new monetary policy. While, on the other hand, until the decision was made to cut away over 90% of outstanding money, all other measures were useless.

1. Currency Reform: During the first three years of Allied Occupation, German wages and prices were completely out of touch with conditions of supply and demand, both in domestic and in world markets. The price and wage levels of

1936 were rigidly maintained in the face of a greatly increased money supply, and of widespread shortage of all types of consumers' and producers' goods. Consequently, German manufacturers could not cover costs, and were thus forced into the black market, or into all sorts of cumbrous, and often illegal, compensation deals. Workers, finding that their wages had practically no purchasing power except for rationed commodities, supplemented their legal income by operations in the black market. The worthlessness of the currency deprived both employers and employees of incentives to productive effort within the framework of legal institutions. In view of the great volume of excess money in circulation, the only practicable course was to contract currency to the dimensions of the available supply of goods and the general level of economic activity. This was achieved by the Currency Reform legislation of 1948.

1. By the Currency Reform Laws of June 1948, the Deutschmark replaced the old Reichsmark, the Rentenmark, and the Mark notes issued by the Allied Military Authorities. The new money was issued by the Bank Deutsche Laender, of which all central banks in the States of the three western zones had become members. The conversion ratio was at first generally established at 10 to 1.

2. Private individuals received an allocation of only 60 new Marks per head in cash (40 immediately and 20 within a month). All notes in excess of this amount had to be left on deposit. They could be cleared for conversion only after an investigation into the holder's tax returns, and into the method by which his money was acquired. Business enterprises received immediately 60 new Marks per employee to cover wage and salary payments. One-half of the converted deposits was blocked indefinitely.

3. Funds of public agencies were not converted. These agencies were given enough new money for one month's operations, pending the receipt of tax payments in Deutschmarks. The accounts of the occupying powers were treated in the same manner as those of public agencies.

4. All debts, contracted prior to June 19, 1948, were made payable at the ratio of 10 to 1. But wages, salaries, and interest payments were converted at a 1 to 1 ratio. All obligations of the Reich, as well as its bank balances, were

cancelled.

5. For the purpose of foreign exchange, the old Military Government rate of 10 RM to $ 1, which had already lost much of its practical importance, was formally abolished: and a provisional Exchange Rate of $ 30 per Deutschmark was established.

A limited tax reform accompanied these measures. Income-tax rates were reduced about 33.1/3% on the average, although the rate of 95% on incomes over DM 250,000 was retained. Corporation tax and annual tax on property were simplified and the rates reduced. The tax on capital transactions and negotiable instruments was increased by 50%. In addition, a new Federal excise tax was imposed on coffee.

The Currency Reform of June 1948 seemed to accomplish an economic miracle. Production of coal, iron, and steel mounted rapidly. In a few months, the index of industrial production rose from 50% of the 1936 level to 79%. Stocks of consumers' goods appeared like magic in retail stores. Amid the rubble of ruined cities, men and women began rebuilding with feverish activity. Energy and initiative replaced the apathy and defeatism, characteristic of all classes of the population in the tragic years of 1946 and 1947. Actually, however, this transformation should not be attributed wholly to the elimination of worthless Reichsmark and its replacement by Deutschmark. In the early months of 1948, the ECA had begun to deliver much-needed supplies of raw materials, and the promise of further assistance was a stimulating factor.

2. **American Aid:** If the reforms of 1948 freed the wheels of the German economy from the rust of years, it was aid from the U.S. that got the wheels turning over. The part that the Americans have played in putting the country on its feet cannot be overestimated. Expressed in money alone, the total of the U.S. assistance is formidable: relief funds and Marshall Aid together have amounted to $ 3.4 billion, and a small amount of aid from the Mutual Security Agency is now being received. But the help Germany has received from the Americans is more than a matter of Dollars granted. They have undertaken the most varied beneficient activities, the sum of which defies computation.

3. **Monetary Policy:** If the Currency Reform was a bold step taken an semi-darkness, and American aid a blend of enlightened self-interest and natural generosity, the third element in Germany recovery was of a different nature. The Federal Bank Deutsche Laender and other financial authorities have had to navigate a long and tricky course to reach their objective—the restoration of the country's ability to produce. It was not easy, especially in the early stages, to avoid both inflation and deflation. On the one hand, the destruction of capital meant that production had to be restarted on credits. On the other hand, public purchasing power had to be strictly limited. To achieve the first of these aims, the banks have issued lavish short-term credits at very high interest. Many firms, desperate for capital, used these short-term advances for the long-term purpose of buying new plant. It was a risky business, but it has paid. The banks, as well as the manufacturers, have made big profits. Counterpart Funds from American aid have provided a valuable source of medium and long-term credit. The expansion of note and coin circulation has been kept in a healthy relation to the expansion of production and other factors in the native economy. And, while production was thus stimulated, the purchasing power of the public was restricted by low wages and salaries, and high prices. It was not until production was well up that the trade unions pressed and secured their claims for higher wages: meanwhile, the worker had to fill his pay-pocket by overtime.

In these conditions, capital investment has been extremely high, and is now proceeding at the rate of DM 23 billion (£ 1.9 billion) a year. Self-financing has played an extraordinarily large part. The entrepreneurs have been able to re-create capital by charging whatever prices they liked (except for coal, and, until recently, iron and steel). There is no true free economy in Germany: There is only freedom from State controls. Astonishing facts came to light when the issue of new Deutschmark balance sheets, after the Currency Reform, enabled firms to revalue their assets without incurring tax penalties. Inspite of the loss of over 90% of liquid assets through Currency Reform, and the losses due to destruction, partition, and dismantling, many companies have been able to revalue their Deutschmark capital at a higher capital than the former Reichsmark total, and many more have revalued at the same figure. The recreation of capital, through self-financing by industry, has been generously aided by the manifold tax allowances that have been granted by the State. Company reports repeatedly record that investments have all been covered by depreciation allowances. A move is now being made to abolish taxes on profits distributed as dividends, in order to promote a new market for capital issues.

II Foreign Trade Policy

Foreign trade has always been a vital matter to the area now known as Western Germany. In prewar years, its exports of coal, iron and steel, machinery, chemical products, and miscellaneous manufactures had an estimated value of $ 1.2 billion ($ 2.4 billion in current Dollars), or about 2/3 of the value of all exports of the Altreich. A large segment of the W. German population (about 1/5) earned its living by working for export markets. Now, as the result of separation from the markets and food supplies in the Russian zone and the area under Polish administration, W. Germany's dependence on foreign trade has greatly increased. Unlike United Kingdom, Germany has no 'invisible' exports. Its merchant marine has been destroyed or taken as reparations, its overseas investments have been confiscated, and its facilities for entertaining foreigners have been much impaired.

War and postwar conditions temporarily converted W. Germany, one of the great industrial areas of the world, into a colonial economy as far as exports were concerned. Substantial imports of the first postwar years consisted chiefly of foreign aid—such as U.S. GARIOA (General Assistance and Relief In Overseas Areas), U.K. contributions, and ERP (European Recovery Programme). In 1947, three products—coal, timber, and scrap iron—made up 80% of all exports. Since 1948, however, W. Germany has made a remarkable progress toward a recovery of her foreign trade. The volume of her exports increased, in 1950, to almost three times the 1948 figure. Exports rose from $ 698 million in 1948 to $ 1,123 million in 1949, and to $ 1,981 million in 1950 : while imports over the same period increased from $ 1,554 million to $ 2,237 million, and $ 2,704 million correspondingly. In 1948, Germany was able to pay for only about 45% of her imports by exports: In 1949, she was able to finance 50.2%: Whereas in 1950, as much as 73.3% was covered by exports. There still remained, in 1950, a gap between imports and exports of the Federal Republic of not less than $ 700 million.

Direction of Trade

ERP Countries: The rate of increase in Germany's foreign trade has been spectacular. It has doubled since 1949, reaching a total of $ 7 billion in 1951, and exports alone rose by 75% in 1951. By far, the greatest proportion of trade is with EPU countries. During 1950, Germany imported 60% of her total import requirements from OEEC countries, including their overseas territories. The facts are that, over the whole of 1950, W. Germany imported from OEEC countries goods to the value of $ 1,608 million, but exported only $ 1,404 million worth of German goods. This resulted in a deficit of $ 204 million in current trade transactions. In the first half of 1952, however, no less than 77% of exports went to this direction. The result has been the extraordinary change in Germany's position in the EPU. From being the biggest debtor, it has become the largest creditor, with a cumulative credit of $ 443 million, at the end of September 1952.

Dollar Area: Germany's visible trade with the Dollar Area continues to show a surplus of imports. This is inevitable as long as wheat and coal have to be imported. American coal imports into Germany are now falling, but her dependence on imported grain is not likely to be reduced much further. Neverthless, Germany's Dollar deficit is not, by any means, as alarming as the export-import statistics would indicate. Dollar-earning invisible exports are now considerable, notably the services rendered to, and the Dollar expenditure by, Americans in Germany. This latter item has risen rapidly as more GI's and their families have moved into the country. Nearly $ 120 million were received in exchange for Marks from American agencies in Germany, in June 1951. As a result, the balance of payments with Dollar Area, at the end of July 1952, showed a small credit for Germany of $ 1.2 million, as compared with a sizeable deficit of about $ 335 million in 1950.

Latin America: Germany's trade with Latin American countries has proved disappointing. High hopes of this market were raised at the outset of the German export drive, and seemed justified by the way in which sales expanded and long-term contracts for capital equipment were secured. But payments difficulties have intervened.

Soviet Bloc: Germany's trade with Soviet Bloc countries was much less satisfactory, and continues to stay at an extraordinary low level. It is a striking fact that the whole trade turnover with all the Soviet Bloc countries, including Soviet Russia, in 1950, was considerably less than Germany's trade with even Switzerland. Since 1946, exports to the Soviet Bloc countries (including China and Eastern Germany) have declined from 16% to 3.9%. This is a development of the 'cold war', under which W. Germany suffers more than any other trading country in the world: and which has deprived her of a most important prewar supplier of grain, timber, and oil—thereby increasing her dependence on Dollar and Sterling supplies.

Control of Foreign Trade

In the early years of the Occupation, Military Governments exercised rigid control over Germany's foreign trade through the Joint Export-Import Agency. After the establishment of the Federal Republic, this Agency was disbanded (October 5, 1949), and the day-to-day administration of foreign trade was turned over to German civil authorities. The Allied Powers, under the Occupation Statute, retain power to exercise general control over foreign trade and exchange.

On November 28, 1949, Federal Republic was given powers to negotiate trade and payments agreements. Utilizing these powers boldly, the government has taken prompt steps to remove barriers restricting imports. New bilateral agreements have been signed with Austria, Netherlands, Norway, Sweden, Denmark, Belgium, and Switzerland. These agreements abolished all quantitative restrictions, save on a few foodstuffs. Exchange control restrictions were removed on trade with the five countries first named. By the beginning of 1951, the Federal Republic had concluded 39 trade agreements, 17 of them with overseas countries.

This programme of trade liberalization has been undertaken in compliance with W. Germany's responsibilities as a member of the OEEC (Organization for European Economic Co-operation). In October 1949, the W. Germany was admitted to full membership in the OEEC, and on December 15, 1949, it signed the ECA agreement with U.S. It has resulted in freeing 58% of the imports from OEEC countries from the requirements for import licences. Except for Switzerland, Germany has undertaken a greater degree of trade liberalization than any other country in the ERP. This policy has been responsible, at least in part, for a rapid rise in imports since the end of 1949.

A considerable sector of import trade, however, is still out of the control of the German government. The ECA has large powers over both domestic and foreign trade. The funds, which it controlled in 1948-49, amounted to about $ 1,000 million (including GARIOA funds, which are now administered by ECA Mission). Although only 7% of the national income of W. Germany, this expenditure in many cases was of critical importance. In approving programmes for the use of these funds, ECA can exercise an important influence on the direction and the pace of economic recovery. ECA also controls the Counterpart Fund, which is Germany's principal liquid asset.

Conclusion: Germany's record of recovery, between 1948-52, contains a lesson of universal value. Germany has been able to accelerate its rate of production and to restore its international balance of payments, because it has given both individual and corporate enterprise the fullest incentives. It has done that by wielding the monetary weapon skilfully and without inhibitions. By freeing the price system, it checked consumption and simultaneously goaded the wage earner into frenetic activity. By offering industry lavish but costly credits, it applied a similar goad to the enterprise: and by so manipulating the taxation of industry—which, in principle, is very high—as to encourage the ploughing back of profits, it enabled him to rebuild his capital at an astonishing pace.

PART FOUR

JAPAN

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AGRICULTURAL POLICY

Inspite of the unprecedented progress of manufacturing in the last 70 years, agriculture still remains Japan's leading industry in respect of both invested capital and net output. It employs about 50% of the occupied population, and supplies about 95% of the food requirements of the nation, and still constituted an important element in foreign trade at the beginning of World War II, Another way of indicating the seriousness of the pressure of population on food resources is to notice the number of people per square mile of arable: In 1929, that figure was 2,774 for Japan in comparison with only 229.2 for the U.S.

Another characteristic of Japanese agriculture is its intensive nature. Japanese farming lacks many of the scientific aids quite commonly used in the U.S. The human factor is particularly significant because of the importance of rice, mulberry trees, and tea in the total agricultural output. All these, as cultivated and harvested in Japan, require intensive application of human labour. Another indication of the intensive type agriculture followed is the resort to multiple cropping wherever possible. A final indication of the intensive nature can be gained from the method of fertilization of soil: with little animal manure available, more than half of the fertilizer used in Japan consists of night soil and green manure.

This brings us to a consideration of one of the main features of Japanese agriculture—the small percentage of cultivable land. This totals 15 million acres, or less than 16% of the total land area. Farming has been pushed far towards the hilly and mountainous regions. Since 1900, the efforts of the government, through bounty system, to encourage the reclamation of wild explored areas have not been too successful. The average farm in Japan, before World War II, had only 2.7 acres: farms with 10 acres or more constituted even less than 1% of the total.

Even before World War II, the efforts to increase the yield per acre showed little progress. Japan's 40 bushels of rice per acre was the highest in the world. The importance of this can be recognized easily because of the dominant place rice has in the Japanese diet. 50% or more of the total value of the nation's agricultural production normally consists of rice and other cereals. All of this was consumed in Japan and represented about 85% of prewar requirements. Rice was imported from Taiwan (Formosa) and Chosen (Korea), when they were parts of the Japanese empire.

Basic Pernicious Ills

The Japanese agriculture, however, has suffered from progressive debility for many years as a result of political, economic, and factors among which the following are the most significant—namely, an enormous amount of tax burden, huge and continually increasing debt burden, decline in soil fertility, and deterioration of sources of subsidiary income.

Taxation: Traditionally, a tax on land has been the principal support of the Japanese government—both local and national. As some 90% of the nation's income was derived from the products of land, prior to the very recent Industrial Revolution, this was understandable. But partly from habit, and partly from the desire of the government to promote the growth of industry and commerce at all costs, the taxes on land and the products of agriculture have been increased—both actually and proportionately. Furthermore, some form of tax remission was among the subsidies Japan has always granted to favoured industries. As a result, landlords paid 50% of their annual income, and peasant proprietors 31%, as against 18% paid by manufacturers, and 14% by merchants, just before the World War II.

Debt Burden: The total mortgage indebtedness of Japan's farmers rose from $ 375 million in 1914 (about $ 65 per family) to $ 1,700 million in 1937 (about $ 300 per household). This is the private debt of the farmer, and does not include his share of debt of village, prefecture, and nation—all of which are appalling. Since the average tillable land per farm family is steadily decreasing, while the tax and debt burdens and fertilizer costs are increasing, the debt structure borne by the Japanese farm can be described only fantastic. Still more fantastic is the rate of interest the farmer must pay on this mounting debt. On more than half of it, the interest rate exceeds 20%: over 2/5 of the farm income is paid out in interest. This rate is 4 to 5 times as high as that on government-sponsored loans to favoured industrialists, and is even more preposterous in view of the 1½% paid on loans to ship-builders. Again, agriculture has paid, in part at least, the subsidies granted to preferred types of industry.

Soil Fertility: The decline in the natural fertility of the Japanese farm lands has been due, in part, to the leaching effect of the heavy rainfalls, but, to a great extent, to the continued production of soil-depleting small grains—particularly rice, barley, and wheat. This practice would have worn out these fields long ago, but for the fact that Japanese have been extensive users of natural fertilizer for centuries. Soil depletion progressed and the yield per acre decreased seriously in many districts until recently, when the use of chemical fertilizers was introduced. Since then, the crop yield has been maintained and increased—but at the price of decreasing the cash yield to the farmer, for the cost of imported fertilizer has become a major item in his operating expenses.

Subsidiary Income: The most important subsidiary industry—i.e. silk culture, that has been a source of additional income to the Japanese farmer—has deteriorated in the past few years. The development and improvement of rayon and other synthesis caused a continued decline in cacoon price inspite of government subsidies. In 1934, the farm income from this source was only 20% of what it had been in 1929. It rallied to 35% in 1936. In 1936, Japan rose to first place in the world's production of rayon, and shortly thereafter, a series of new synthesis—including now famous nylon—were developed in the U.S.A.

Although Japanese agriculture is, by all standards, a bankrupt industry, and its yield per man-hour of labour among the world's lowest, the total gross yield and the per-acre yield have been considerably high, partly because the Japanese farmer and his large family are conditioned to hard work and privation by long habit and fanatical nationalism. The policy of the government has been to keep the country as nearly as possible self-sufficient in the production of foodstuffs, no matter what the cost to the farmer. Persistent propaganda has taught him to blame his hard lot on the semi-Europeanized city capitalists and the foreign powers, and their economic and political 'encirclement' of Japan. This policy has been largely successful, and Japan has maintained self-sufficiency in all major food crops—except rice.

Farm Legislation

Rice: The government began the control of the price of rice in 1918, through regulating the supply of imported rice. The Rice Control Act was passed in 1921 for the purpose of stabilizing prices. It provides that whenever the government deems the regulation of supply of rice desirable, it may purchase, sell, exchange, or store rice: or raise, lower, or abolish custom duties affecting the importation of this highly important cereal. To raise necessary funds, rice purchase notes, payable within one year, may be issued, or ordinary borrowing may be resorted—the total that may be raised being now fixed at 270 million Yens.

Silk: The Silk Stabilization and Indemnification Act was passed in March, 1929, for the purpose of aiding sericulturists, who were in great distress because of the calamitous decline in the price of silk, which began with the depression in American industry and trade. The law, as amended, provides for the indemnification of silk producers, for losses sustained, to the extent of 3,516 Yens for each so-called 'account', which consists of 10 bales. Inasmuch as there were 8,394 such accounts, the indemnity obligation to the government aggregated 29,513,304 Yens. This sum was payable in instalments upto June 30, 1932.

Wheat: In 1931, a year before the conquest of Manchuria, the imperial government began experimenting with a variety of measures—all of them having the stated purpose of alleviating the sad condition of farmer, but actually to maintain this agricultural self-sufficiency. For instance, the 5-year plan for wheat, inaugurated in 1932, did triple the farmers' income for wheat, but it also accomplished its real purpose of raising product to 50 million bushels by 1937-38 harvest. This was done primarily at the consumers' expense by raising the tariff on all imported wheat and flour, although superior varieties of wheat and improved cultural methods were introduced. To a considerable extent, wheat replaced millet and barley as a second crop in rice field, and to a lesser extent because mulberry trees were cut down because of the continuing decrease in silkworm culture.

Rice: Under the Rice Law of 1933, the maximum and minimum prices were set each year for the entire empire, and maintained by a million Yens stabilization fund. The growers reaped considerable benefit, but the fund ran out: and, confronted with the prospect of losing money, the government amended the law in 1936 to institute a warehousing procedure that threw the burden back on the farmer. The result was that, in 1936, the farm income from rice was $ 300 million less than in the pre-price control year of 1929, although rice was sold at a higher price and the crop was 1/8 larger. As the chemical fertilizers became increasingly necessary to maintain crop production, their prices went up. Here, the government instituted a system of bulk purchase, as well as price control, to check sky-rocketing costs.

Land Purchase Program: Earlier, in 1926, the government appropriated $ 150 million for a 25-year programme to permit to buy rented land. In 1932, in line with the general agricultural programme, a huge increase in the appropriation was planned, but it was blocked by the landlord interests. By 1936, about 120.000 tenants had bought 130,000 acres of land —i.e. a little more than 1 acre each. Before World War II, only 2% of the peasants had received any advantage at all from the purchasing programme. So its overall effect has been negligible.

Agrarian Problem

Essentially, Japanese agriculture represented an uneconomic use of man-power on too many small farms. By 1920, despite the addition of some new lands, the saturation point had practically been reached. Very little untilled lands had remained which could be farmed economically. However, there had been some advances. The status of Japanese farmer had been improved by granting outright ownership to land, and by substituting a money tax for one in rice or labour. The farmer had now a knowledge of different crops, better seeds, and latest methods of scientific agriculture. With all these improvements, Japanese agriculture remained much the same in 1940, as it had been in 1910. Farm holdings were still small (75% having less than 2.5 acres) with almost no mechanization or suitable crop rotation. Intensive agriculture, under these circumstances, required too much manpower and the frequent, expensive use of fertilizer. Land tenure figures had slightly increased over the 1910 estimate.

Before the depression, the present farmer had supplemented his income by sericulture and various cottage industries. After the depression, the future of silk industry became very doubtful because of the production of 'nylon'. The agrarian class, at all times, had further increased their diets and income by fishing. Agriculture still made an essential contribution to the nation's welfare. However primitive they might be, the farmers still produced 80% of the rice, and 90% of the wheat and other grains needed to feed the people. With imports of rice from Chosen (Korea) and Taiwan (Formosa), the nation could feed itself for a long time during World War II. (Refer 'SCAP' Agrarian Reform).

INDUSTRIAL AND FINANCIAL SURVEY
1914—1940

The period 1915 to 1920 was one of extraordinary economic prosperity and expansion. The World War I probably did more to stimulate economic expansion in Japan than anywhere else in the world. After the middle of 1915, an urgent demand for Japanese goods and shipping services arose both from the belligerent powers, and also from countries deprived of their normal means of supply of manufactured goods. Consequently, the rate of industrial advance was greatly accelerated and exports of manufactured goods grew considerably (in quantity 40% : in value trebled) between 1913-1918, and a favourable trade balance of great dimensions resulted. As 'invisible' exports, chiefly in the form of receipts from shipping services also increased, Japan's surplus on her trading account, during the four years of war, was very large, and, by 1919, she had been transformed from a debtor into a creditor country.

Moreover, the curtailment of European competition in Japanese market greatly stimulated internal industrial development : and, at the same time, enabled Japan to gain a foothold in the competitive markets of Asia, Africa, Australia, and the South Sea Islands. American prosperity, with its accompanying mania for silk shirts and stocking, also provided the demand basis for a phenomenal expansion of sericulture. Consequently, the end of boom, in 1920, saw Japan far more industrialized than in 1914, a creditor instead of a debtor country, with short-term balances abroad amounting to over 1,300 million Yens. Her domestic gold reserves also increased. The war period, thus, lifted Japan to an entirely new economic plane—commercially, industrially, and financially.

Postwar Collapse

In 1920, the government supported a silk velorization scheme : and, in the following year, under the Rice Control Act, it attempted to relieve agricultural distress by operations designed to stabilize the price of that cereal. Schemes such as these resulted in very heavy losses to the government, and were partly responsible for a great rise in its expenditure (1,172 million Yens in 1919-20 to 1,430 million Yens in 1922-23). This additional expenditure was covered by borrowings. The great Kwanto earthquake, which occurred on September 1, 1923, was at once a staggering social and financial calamity, and an industrial and employment boom of major proportions. In order to relieve the financial institutions whose assets had been frozen as a result of earthquake, and to accelerate the work of rapid reconstruction of Tokyo and Yokohama, the Bank of Japan was authorized to discount Earthquake Bills, under a government guarantee against loss upto the limit of 100 million Yens. This increased expenditure was borne partly by the disposal of its remaining foreign credit and balances, but mainly by borrowing at home and abroad. The earthquake reconstruction requirements served to stimulate a wide range of business activities, and to create a favourable employment situation.

Thus, except for a brief period in 1920-21, Japan enjoyed rapid economic expansion practically from 1914 on. In the postwar years, the financial conditions were extremely unstable. The government Budget was seriously unbalanced, and large loans were continually being floated by the central, colonial, and local governments to meet deficits, and carry out both public and private economic undertakings. The balance of payments with the outside world was heavily adverse, financial reserves and investments, accumulated during the wartime prosperity, were being rapidly dissipated, and the value of the Yen was depreciating.

In 1926, the government, doubtless influenced by the British return to the Gold Standard in previous year, attempted to restore financial stability. Economies were effected in administration, and, as a preliminary to the removal of the gold embargo, the government tried to secure the liquidation of outstanding Earthquake Bills. The first effect of this new policy was to give rise to speculation in the Yen on the part of operators in Shanghai and New York. From a low level of $.41 in 1925, the exchange rose to just under part in the early months of 1927. This rise in the exchange disorganized the exporting industries—particularly raw silk producers—and a severe financial crisis followed in the spring of 1927.

In the meantime, the government proposed to compensate the Bank of Japan for losses incurred in discounting Earthquake Bills by delivering to it of government bonds. Bonds were also to be lent to the ordinary banks for the same purpose. Preliminary discussion of the need for this relief legislation precipitated a loss of public confidence, even though the Bills were promptly passed. The run on banks started in Tokyo and Osaka, and soon spread throughout the country. The Bank of Japan, consequently, greatly expanded its loans and discounts. But this did not suffice to restore confidence. Ultimately, 36 banks, large or small, were forced to suspend payments. A moratorium had to be proclaimed, and the government guaranteed advances by the central bank amounting to 700 million Yens. These measures proved effective in arresting the panic (May 8).

Depression

The next two years was a period of financial readjustment, during which some progress was also made in rationalizing industry. In the summer of 1929, the Minseito government was returned to power by a large majority on a programme of financial deflation. This was to be achieved by rigorous restriction of government loans, and by lifting of embargo on gold exports and the restoration of Gold Standard at the old parity (approximately 49.8 cents). The announce-ment of the new government policy led to a rise in the exchange from its low level of $.43 in 1929, and the embargo was removed in January, 1930.

But the steep decline in world prices, which coincided with the return to the Gold Standard, accentuated the difficulties of adjustment. Japan's wholesale price index fell, between June 1929 and December 1930, by 46 points, or 27%-a much greater decline than that of the indices of U.S.A. or England. Japan was unable to maintain the balance of payments without large shipments of gold, and the Bank of Japan lost 260 million Yens (1/4 of its gold reserves) during the year. Japanese sales of manufactured goods in Asia were also affected by the world slump. Exports of cotton tissues declined by 34% in value and 12% in quantity. The value of entire export trade in 1930 was 32% less than that of the previous year—a decline far greater than that experienced by the world as a whole.

The chief source of the country's difficulties was the collapse of 'American Prosperity', and, with it, the demand for raw silk. The price of silk, the primary article of export, declined within a year by more than 50%. The peasantry suffered terrible distress in consequence, and the government was obliged to modify its financial policy. In the spring of 1930, the government launched a scheme for the velorization of silk that proved very expensive. It was impelled to increase its expenditure on public works in rural areas and to give financial assistance to the depressed classes of producers. This additional expenditure, together with the receipts from taxation, forced the government to abandon its 'no loan' policy.

In 1931, the situation quickly deteriorated. The government was obliged to resort extensively to borrowing at its expense, as resistance to deflation became stronger. As imports also fell steeply, the rise in the adverse balance of trade was relatively small: but the loss of confidence that the intense depression caused, resulted in a flight from the Yen, and there were further heavy losses of gold by the central bank. A serious blow was given to the government's deflationary policy by the Great Britain's abandonment of Gold Standard in September 1931. Immediately, exports of manufactures and the receipt of the mercantile marine began to suffer from British competition, while Japan's financial position was weakened by the depreciation of its funds in London. The flight from the Yen was accentuated, and the gold reserves dwindled, until, towards the end of the year, it was no less than half the amount at which it stood in January 1930. In December, the government fell, the embargo on gold was re-imposed, and the exchange value of the Yen was allowed to slide downwards.

Industrial Recovery, 1932-40

Japan's reaction to the emergency created by the depression proved the soundness of the planning of its leaders. As exports of silk declined, Japanese economy substituted other products—such as cotton and rayon textiles. From a low of 198,700,000 Yens, in 1931, exports of cotton piece-goods increased to 492,400.000 Yens in 1934. This significant gain was made despite competition from fat textile industries in India and China. Obviously, it was registered at the expense of Western powers—primarily Great Britain. Japanese exports to the Netherlands Indies grew in volume. Not content with these established markets, Japanese businessmen, with government support, entered such new area as Central America. This was one way Japan tried to provide jobs and higher standard of living for its rapidly increasing population.

This process of substitution was associated with a downward movement in industrial wages. The fall in silk prices meant a heavy reduction in the income of the rural community. Male members of the family, therefore, flocked into the towns or sought employment in manufacturing industry: while many of the girls tried to find work in the cotton, rayon, and woollen mills. This increased competition for industrial employment forced down the wages in manufacturing trades—especially those of female workers in the textile industries, and of unskilled labourers. Costs of manufacturing were, thus, lowered. The improvements effected in technique and organization in large-scale industries were another factor responsible for wage reductions: for these improvements meant that the demand for labour failed to increase in proportion to the rise in output. This factor assisted industrial employers to increase the volume of their output, and acquire fresh markets.

State Financial Policy

Another significant factor, which has exercised a powerful influence in promoting the boom in Japanese industry, and has been largely responsible for the rise in importance of capital goods trades, has been the financial policy of the State. When the Minseito government was overthrown at the end of 1931, its deflationary policy fell with it, and the succeeding government embarked upon a programme of reflation. In the next few years, the expenditure of government was greatly increased, and much of this increase was financed by domestic bond issues. The rise in government expenditure, financed mainly by internal borrowing, checked the downward trend of price after 1931, and soon caused them to move upwards.

As the rates of money wages were not increased between 1932-36, a stimulus to industrial production was given—particularly to the trades producing capital goods. These trades, which normally expand during period of rising prices, received a special stimulus from the direction of a large part of the government's increased expenditure toward the encouragement of trades, such as shipping, considered necessary from the standpoint of national defense. The increase in the borrowings of local governments had the same effect, for much of the money raised was spent on public works and various kinds of industrial equipment. Japanese investment in Manchukuo, between 1931-36, amounted to about 1,666 million Yens, much of which was expended in Japan proper. All these circumstances were specially favourable to an expansion of the capital goods industries.

Rates of interest have fallen. The Bank of Japan discount rate on commercial bills, for instance, fell from 6½% at the end of 1931, to 3¼% at the end of 1936. This tendency has been followed by other short-term money rates. Costs of trading and stockholding have, thus, been considerably diminished, What is more important, the long-term rates have also dropped—e.g. a fall in the average rate of interest on outstanding debentures from 6% at the end of 1931, to well under 5% at the end of 1936. In these circumstances, it is not difficult to understand how it is that the industrial boom has been particularly evident in the capital goods industry, or why changes in the composition of Japanese industries—which have greatly increased the importance of metallurgical, engineering, and chemical trades—should have taken place.

Role of Foreign Merchants

In the promotion of Japanese exports, foreign merchants have played an important part. When Yen began its steep decline in 1932, buyers from European and American importing houses and chain stores flocked into Japan with samples which they induced the Japanese to copy at low prices. The rise in the exports of miscellaneous manufactured goods has owed much to the efforts of these buyers, and of the foreign agents and export houses in Yokohama and Kobe. These activities on the part of foreign merchants are, of course, legitimate. Had it not been for their enterprise, the cheap goods would have not been available for the poorer consumers of other countries, and Japan would have found greater difficulty in adjusting her economy to the strain to which it was subjected by the fall in raw silk prices. But it is amusing to reflect that while Japan was being accused of selling at ridiculously low prices, of running foreign industry, destroying the high standard of life of Western workers and sweating her own people, the merchants of those very countries were playing a prominent part in bringing down Japan's export prices and stimulating her foreign trade.

Industrial Progress

In general, the depression forced Japan to diversify and extend its industries. Smaller commercial units did not disappear, but grew in numbers. To an increasing extent, reliance was placed on them to produce for Japanese market. In heavy industry, greater emphasis was placed on the development of the country's mineral wealth. After the Manchurian Incident of 1931-32 and the creation of the puppet State of Manchukuo, the Japanese moved rapidly to build an extensive manufacturing plant there. In the international friction created by this 'war' with China, Japan's military leaders found ample reason to insist on the rapid expansion of the armament industry—including chemicals, machine tools, and steel. The nation was already utilizing its coal and copper to the fullest extent possible. Hydro-electric facilities had been developed rapidly to the point where a majority of the power needed by industry would come from this source.

Even though there was a general industrial expansion after 1930, emphasis was shifted to heavy industry. In 1928-29, Japan had imported about 30% of its finished steel requirements and had exported none. The production of pig iron was little more than a million tons annually, and that of finished steel only twice that figure. Somehow, Japan had to cut its imports, meet its own requirements, and still have enough steel to export to some of its colonies and Manchukuo. By 1936, the production of pig iron had been almost doubled, with steel even better. During those years, national imports of steel had been cut by 67%, yet Japan's oversea empire received some 9 million tons of finished steel from the mother country. Further, imports at the end of the period consisted largely of special steels.

Directly dependent upon the steel industry, the manufacture of machinery made equally rapid progress. The nation's economy still required more machine tools and boilers than could be produced. Yet, Japan's exports for 1936 included scientific instruments, as well as textile, mining, and electrical machinery. Japan still needed imports of iron ore from Japanese-owned mines in Malaya, from the Philippines, and from China : and scrap iron and steel from the U.S. Much of this, after 1936, was used for stockpiling against the possibility of war. The nation, thus, never could be self-sufficient within the confines of Japan proper, but it had made real progress towards that goal in seven years.

A general improvement in the nation's international economic position paralleled this growth of steel industry. Between 1929-37, Japan's share of world trade did not increase dramatically (exports increased from 2.94 to 3.47 : imports increased from 2.80 to 3.90), but was impressive that it showed any gains. During most of this period, world trade was growing stagnant. The increases were also made in manufactured goods which competed with similar materials produced in Western countries. This meant that each market had to be captured from the established supplier. With a strong trend toward economic isolation, prevalent in the world, such progress is even more remarkable. These years saw tariffs at an all-time high. Every nation seemed to prefer, and was forced to adopt, import and export quotas.

By 1940, Japan's economic progress had been demonstrated in several ways. The nation had the world's third largest merchant marine. Its foreign trade had reached a record high of 2,700 million Yens in 1936. One of the proofs of progress lay in the nation's ability to provide a standard of living no lower than that of 1929, despite a rapidly growing population that had reached 73 million in 1940, and was increasing at a rate between 800,000 to 1,000,000 a year. Before World War II, Japan's economic progress was threatened as much by world events as by internal developments. For continued success, Japan needed world economic conditions which would provide freedom in international exchange. Price competition and sure access to raw materials were essential. While its international competitors were more interested in the preservation of the status quo, Japan's economy demanded greater production and increasing international trade.

Japan's extensive accomplishments, upto 1940, had been achieved despite a late start from insecure foundation. The nation's economy possessed a 'dual character'. The base was composed of agriculture and small-scale manufacturing establishments. Super-imposed on this was a large-scale business and industrial organization, which political decisions had, in some instances, helped to create and had always encouraged. The Meiji Reformers knew that Japan lacked capital resources and a large investing class. This remained true throughout the entire period. The government and a few capitalists had to take the place of the large middle class, which, in occidental countries, had supplied the money and the brains for the Industrial Revolution. In the process, more power and wealth came to the Zaibatsus. The surprising thing, perhaps, was the increase in the number of small business and industrial units. Japan's economy retained flexibility, which constituted one of its principal strengths.

FOREIGN TRADE

Prior to the 1930 depression, and in the years immediately preceding the outbreak of the European War in 1939, Japan was fifth nation in the world in foreign trade, being exceeded by Great Britain, U.S.A., Germany, and France.

Since the beginning of her modern commercial history, Japan has bought more goods abroad than she sold, but her sales of services—shipping, banking, forwarding, insurance, and the like—have consistently amounted to about twice what she purchased from foreign nations, thus wiping out the unfavourable commodity balance that persisted year after year.

Imports: In 1940, nearly all her imports consisted of raw fibres (principally cotton and wool), ores and metals, oils, fats and waxes, coal, oil and other fuels, foods, timber and wood products, rubber, machinery, oil cake and oil seeds, and chemicals. The U.S.A. has been the chief source of Japanese imports for 40 years. In 1937, U.S. supplied over 1/3 of the total. India had second place as a source in 1937: It furnished about 1/8 of Japanese purchases, consisting chiefly of the very short staple cotton, for which Japan had been almost the sole market. China, excluding Manchuria, was a close third. Then, in order, followed—Germany, Australia, Dutch East Indies, and Malaya, each of which exported $ 50 million or more of goods to Japan in 1937: Great Britain, Canada, and South Africa, each of which supplied $ 25 million of goods: and the Philippines and Brazil, the lesser amounts.

Exports: The value of exports, which in 1931 fell to 1,147 million Yens, rose considerably after that year, and reached 3,175 million Yens in 1937. This growth was accompanied by a paramount change in the composition of trade. Three major textile goods—raw silk, silk manufacturing, and cotton yarn—which made up 2/3 of the total exports in 1928-29, accounted for only 2/5 in 1935-36. This change was associated with a rapid development in the export of minor articles—e.g. rayon and woollen textiles, metals, machinery, chemicals, canned goods, pottery, glass, wood products, knitted goods, toys, inedible fats, and other miscellaneous consumption goods. There has been a change of equal importance in the markets to which the exports are sent. In 1928-29, U.S.A., China, India, and Dutch East Indies took 4/5 of the exports: By 1935-36, these four areas were responsible for only 63%. China has always been Japan's best market, as is inevitable from her geographical location. Then followed U.S.A., Dutch East Indies, India, Manchuria, and Great Britain. Australia, Malaya, Philippines, and South America were minor markets.

By Continents, Asia bought 1/2 of Japan's exports, North America 1/4, Europe 1/8, and the rest went to Africa, South America, and Oceania, in the order stated.

It is clear then that the tendency of the postwar decade—when the export trade was becoming highly specialized both in markets and in commodities—has been reversed: Japan's export trade now has a much broader basis than before the depression.

AGRICULTURAL AND INDUSTRIAL FINANCE

Prior to the Chino-Japanese War in 1895, the only source of long-term credit for business enterprises was the ordinary commercial banks. With a view to promoting agricultural and industrial development, a number of investment institutions were organized in the ensuing years.

1. Hypothec Bank

The Hypothec Bank (Nippon Kwangyo Ginko) was organized to occupy a position in the system of real estate mortgage banking, similar to that of the Bank of Japan in the field to commercial banking. The Bank, with head office in Tokyo, has branches throughout the country, and supplies funds to the Agricultural and Industrial Banks, and to co-operative associations. The operating capital of the Hypothec Bank, as well as that of the Agricultural and Industrial Banks, is derived from the issue of debentures, which may be issued 15-times their capital in hand. The Bank plays an important role in the economic life of the nation.

The principal business of the Hypothec Bank is: to make 50-year amortization real estate mortgage loans, to make unsecured advances to prefectures and to local governments, to make unsecured loans to a group of not less than 10 persons under joint liability engaged in agriculture or fishery in any prefecture where Agricultural and Industrial Banks do not exist, to make unsecured loans to co-operative societies and other associations, to subscribe to the debentures of the Agricultural and Industrial Banks and the Central Bank of Co-operative Societies, to receive deposits of money and accept valuables for safe-keeping. The funds left on deposit can be employed only in connection with operations in keeping with the general character of the Bank's business.

Agricultural and Industrial Banks are local institutions in the field of real estate mortgage credit, virtually subsidiaries of the Hypothec Bank. The capital of each must not be less than 200,000 Yens. As a rule, each Bank has one prefecture as its business district, and its business is very similar in character to that of the Hypothec Bank.

2. Industrial Bank

The Industrial Bank (Nippon Kongyo Ginko) was authorized, under a law of 1900, for the purpose of supplying capital to various industries and public utilities—such as railroad building and harbour construction. The Bank, with head office in Tokyo, has several branches in the country. Its principal business is: to make loans on government and corporate securities, to subscribe for or underwrite government securities, to engage in the secured debentures trust business, to make first mortgage loans on ships (payable in 5, or, through amortization, in 15 years), to make first mortgage loans on lands and buildings (either factories or residencies in certain restricted areas), to discount bills, and deal in bills of exchange. The Industrial Bank resembles the Hypothec Bank and other mortgage institutions in its real estate financing operations, though it specializes in the industrial, rather than agricultural, field. The really distinctive features of the Bank are—the making of advances on vessels, and trust services in connection with secured debentures.

3. Trust Companies

The organization of trust companies in Japan was not authorized by law until 1922. Since the Trust Companies Act became effective in January 1923, the growth of these institutions has been extremely rapid. Trust companies, as one of their numerous functions, are authorized to make loans to business enterprises, public corporations, and co-operative societies. The trust companies in Japan, unlike those of the U.S.A., are prohibited from engaging in general banking business. Many commercial banks have, therefore, organized trust companies of their own. Indeed, most of the trust companies are now affiliated with the leading commercial institutions. The explanation of this trend is that the trustee business has been prosperous, and that the trust companies, by being able to offer higher rates on deposits, have also enjoyed a competitive advantage over the commercial banks.

4. Co-operative Credit Institutions

Co-operative credit institutions have come to play an important role in the financing of small-scale enterprise—both urban and rural—and in the encouragement of thrift among the masses of the people.

1. **Co-operative Credit Associations:** These Associations are found both in urban anl rural communities, the former being authorized in 1917, and the latter in 1900. There are some 2,600 credit societies, which devote themselves to the receiving of savings deposits from, and the making of loans to, members: while there are about 9,750 other societies which engage in additional activities. Since 1917, these societies have been allowed to receive deposits from public corporations and entrepreneurs, and from families of members. These outside deposits have grown rapidly, comprising 40% of the total. The working capital is derived mainly from deposits, though in part it comes from membership contributions and loans. The rural associations are of much greater importance than those in urban centres. The number of rural unions in 1929, for instance, was 12,100, while the urban unions numbered only 252. It is of interest to note that the deposits of non-members in the rural banks now equal more than 60% of the member deposits, and that in urban unions they slightly exceed those of members. These institutions are, thus, in some measure, general investment banking agencies.

2. **Allied Co-operative Credit Associations:** A number of so-called allied co-operative credit associations have been formed in recent years. They are organized by the co-operative credit societies themselves for the primary purpose of supplying capital to, and receiving deposits from, the credit societies, thus facilitating the flow of funds between indivjudal credit societies and promoting their more effective employment. These allied associations may also guarantee obligations of the member societies to the Central Bank of Co-operative Societies, and the Hypothec Bank.

3. **Central Bank of Co-operative Societies:** This Bank

was organized, in 1923, for the purpose of articulating the credit associations in a system, comparable to that of the commercial mortgage banking system. Its function is, thus, analogous to that of the Bank of Japan and the Hypothec Bank. It not only facilitates the flow of funds among credit societies and allied credit associations, but it provides funds for seasonal requirements: and it also furnishes 'intermediate credit'—i.e. loans which fall midway, in point of time required for their liquidation, between commercial credits and mortgage loans. Loans are made for periods not exceeding 5 years. The capital of the Bank is contributed by the co-operative societies, the allied co-operatives, and the Bank of Japan. It is authorized to issue bonds to an extent not exceeding 10-times its paid-up capital. It receives deposits from credit associations and from public corporate bodies. The Bank is subject to the supervision of both the Minister of Finance and the Minister of Agriculture and Forestry. By virtue of its standing, it can borrow from other banking institutions: It, thus, links the co-operative credit institutions up with the general credit structure of the country.

LABOUR POLICY

Notwithstanding the steady growth of an urban wage-earning population, it was not until the period of the World War I that workers became genuinely class-conscious and developed the methods of industrial negotiation and bargaining, with which the Western world had long been familiar. The only labour organization in existence, at the outbreak of World War I, was Yuai Kai (Friendly Society of Workers) composed of labourers in various lines of industries and occupations. It was organized in 1912, but its existence did not attract attention until 1915, when a delegate was sent to the Convention of the Federation of Labour in the U.S. Yuai Kai was reorganized on a trade union basis in 1919.

The emergence of an aggressive labour movement was precipitated by the rise in the cost of living during the period of war. A large number of trade unions were organized between 1915 and 1920, the movement being greatly influenced by the glorious victory of the Allies in Europe, the successful

Russian Revolution, and the International Labour Organization to which Japan was invited to send delegates. In 1918, a 'League of Labour Unions' (Rodo Kumiai Kai) was created for the purpose of promoting the interests of labour by concerted action. A division, however, soon occurred within the federation, the 'Left Wing' going its own way, and the more moderate elements establishing the 'Japanese Federation of Labour' (Nihon Rodo Somei).

After the earthquake of 1923, realising the futility of militant methods and the immediate need for giving relief to workers, the trade union movement again swung to the 'Right'. The immediate factors which brought about this unexpected change in the ideals were that, in 1923, the government declared its intention of introducing shortly manhood suffrage: and that, in 1924, the trade unions were allowed to elect their own representatives to the International Labour Organization. From 1925, therefore, the trade unions concentrated their energies on political parties to secure parliamentary representation. Again, an attempt was made to form a loose federation of moderate trade unions under the name of 'Japanese Labour Club' (Nihon Rodo Kurabu). In September, 1932, it was reorganized into Japanese Trade Union Congress' (Nihon Rodo Kumiai Kaigi).

Despite the changing attitude on the part of both the government and business, after World War I, Japanese trade unions possessed no legal status until World War II. The total membership of Japanese trade unions, before World War II, was about 380,000. The only industries, in which the workers were powerfully organized, were the transport industries—especially the mercantile marine. It was only in the latter field that the principle of collective bargaining had been recognized. About 4/5 of the members were covered by the Japanese Trade Union Congress, formed in 1932, of which the largest constituent was the 'Japanese Federation of Labour'.

Labour Legislation

Before 1919, Japan had little by way of labour legislation. The adhesion of Japan to the International Labour Organization resulted in promoting the workers' welfare by guaranteeing the workers' right of association and stimulating protective labour laws. Accordingly, the first comprehensive legislation, the Factory Act passed in 1923, came in force since 1926, with the provisions as under: First, the Act applies to factories, employing 10 or more workers, and 'dangerous' trades. Second, it prohibits night work for women and young persons from 10 p.m. to 5 a.m. Third, it prohibits the employment of women in underground work in mines. Fourth, it limits the working hours for women and young persons to 11 (including break of an hour). Fifth, it gives maternity protection. Women are prohibited from employment 4 weeks before, and 6 weeks after, confinement. Sixth, it introduced the system of workmen's compensation for industrial injuries. Seventh, in case of termination of worker's employment, the employer is required to give at least 15 days' notice, or, in lieu of it, at least 14 days' pay.

Health Insurance

The first Health Insurance Act, passed in 1922, was partially enforced in 1926, and then fully in 1927. It applies compulsorily to all employees in factories or mines coming under the control of factory or mining laws: but does not apply to temporary workers and administrative staff, drawing a salary exceeding 1,000 Yens per annum. It may apply to building trade, public works, land transportation, electricity industry and others, if more than 1/2 of the workers engaged in them invoke it. An employer of 300 insurants may form, and an employer over 500 insurants may be required to form, a 'Health Insurance Association' to undertake the insurance business of its members. There were 350 such Associations at the end of the financial year 1929-30. For those who are not members of any such Associations, the government itself undertakes the insurance business.

Benefits are provided for sickness, injury, maternity, and death. The insured is entitled to receive, during his enforced illness resulting from illness or accident attributable to his work, 60% of his regular wage, and free medical attendance for a period not to exceed 180 days. After that period, compensation provided in the Factory Act applies. In case of child-birth, a working mother receives 60% of wages for 10 weeks—4 weeks before and 6 weeks after confinement—together with an allowance of 20 Yens to defray the expenses of child-birth. In case of death, funeral expenses corresponding to 30 days' wages are paid to the family of the deceased. The funds necessary for the scheme are realized from contribution from workers, employers, and the State. The government treasury contributes about 1/10 of the total expenses of the insurance (2 Yens annually per person is the limit). The rest of the expenses are, as a rule, shared equally by the employer and employees, although in business of exceptional risk, the employer may be required to bear 2/3 of the costs. In case of Health Insurance Associations, the premium is now on the average rate of 4.5 Sens per Yen of the daily wage of the insured. In the government managed insurance, it is 8 Sens per Yen in coal mining, and 4 Sens per Yen in other industries.

Unemployment Insurance

In 1936, an Act was passed for this purpose. It applies to all factories and mines employing not less than 50 workers, but covers only 'wage earners' and not 'salaried employees'. It provides for a cash allowance to all workers leaving employment. The resources necessary for giving relief are provided by contributions of 2% of the total wage of workers and 2% of the total wage paid by employers, to which a further contribution is made by employers in proportion to profits, fixed, in each instance, by the authorities responsible for the enforcement of the Act. Though there is no comprehensive State system of unemployment insurance, the practice on the part of employers of granting dismissal and retirement allowances is widespread. This practice has its roots in the 'patriarchal relationships of master and servant', which prevailed in Japan after the beginning of the Meiji era.

Slow Growth of Trade Unionism

The trade union movement in Japan is still in its infancy. It is a movement toward the organization of labour, rather than the one founded on the organized labour. The economic structure of Japan, the system of industrial relations that exists there, and the paramount political influences—are all hostile to the development of a strong labour organization. The slow growth of trade union movement in Japan may be attributed to the following factors:

1. About 45% of the factory workers consist of women, whose industrial experience is short, and who cannot therefore be effectively organized.

2. In many of the large-scale enterprises, where trade unionism might be expected to become an active force, the prevalence of the bonus system and other devices associated with 'paternalism' is unfavourable to any attempts to organize the workers on a craft, occupational, or industrial basis.

3. A large part of the railway system, and important undertakings in the heavy industries, are in the hands of the government or of semi-official bodies, and here the difficulties encountered by the trade unions are even greater.

4. In the great mass of small-scale trades, the intimate personal relationships between employers and workers delay the growth, among the latter, of a consciousness of a common interest, distinct from that of their employers.

5. The absence of any form of public regulation of wages, the development of which in Britain has greatly encouraged trade unionism, is also an important factor.

6. The throng of new recruits, which annually crowds on to the industrial market, places insurmountable obstacles in the way of any policy designed to create a monopoly of labour supply.

7. The poverty of Japanese masses has prevented the unions from amassing large funds for strike-pay, or for the granting of friendly society benefits. Thus, one of the chief means of retaining the loyalty of members in times of difficulty is lacking.

8. The leadership of trade unions has come from the intellectual classes, who attached too much importance to 'abstract ideals' rather than 'constructive activities' for members.

9. The attitude of the government, upto 1945, was also antagonistic. The police, who possessed wide powers, kept a constant watch over what they called 'dangerous activities' and the spread of 'dangerous thought'.

Since the occupation of Japan, in 1945, SCAP has followed by a very liberal policy. (Refer 'SCAP' Labour Policy).

TRANSPORTATION

At the beginning of the Meiji era, the transportation facilities of Japan were of the most meagre character. Highways were few in number and of primitive type: railroad lines were unknown: inland waterways, because of the mountainous topography, were navigable only for short distances; and, in consequence of the policy of national seclusion, there were no ships that could navigate the open seas. In less than 50 years, a comprehensive unified railroad system was developed, and Japanese shipping lines encircled the globe.

1. Railroad Transport

Railway development in Japan began some 40 years later than in the U.S.A., Great Britain, and other Western countries. The first railroad was constructed by the government, in 1873, between Tokyo and Yokohama—a distance of little over 17 miles. As part of its general programme, the government took lead in the development of railroads, as indeed it did in many other lines of activity. But it was expected that, after the initial stage, railway construction would be left to private enterprise. In the 1880's, private capital did, in fact, enter the field of railway development, and for nearly 20 years, private lines increased much more rapidly than did those constructed by the government. In Japan, as in many other countries, an agitation early arose in favour of the nationalization of the railroads. But it was not until 1906, the year after the Russo-Japanese War, that the Railway Nationalization Law was enacted, under which all 'trunk lines' were nationalized.

While the principle of government ownership of all trunk lines was thus established, local 'feeder lines' and their future development was left to private enterprise. By Acts of 1910 and 1911, the government gave encouragement to the construction of light railway feeder lines. These laws empowered the government to subsidize a local railway, for a 10-year period from the date it begins operations, upto 5% of the cost of construction each year. In 1919, all private railroads were placed under the control of a new law pertaining to local railways, under which the above subsidies are continued. The length of railway lines in operation, in 1928-29, was 12,198 miles, of which 8,509 miles were government lines, and 3,689 miles local private lines.

Japan's rail lines were maintained and her equipment was excellent prior to the inevitable wartime deterioration. A long-time programme for the complete electrification of the rail lines was inaugurated several years ago. When the war broke out, the important Tokyo-Nagoya-Osaka-Kobe line had been electrified, as well as most of the auxiliary trackage immediately adjacent to Tokyo and much of that in the Osaka-Kyoto-Kobe 'industrial triangle'. Japan, by 1939, had about 10,740 miles of government-owned main-line trackage, and some 4,000 miles of privately-owned subsidy-lines. No substantial increase is indicated in postwar Japan.

2. Highway Transport

The development of highways in Japan began during the Tokugawa era, a number of important roads being built with a view principally to military requirements. The era of development of public roads began with the promulgation of the Highway Law in 1919, which established regulations as to width, gradient, curvature, and bridge construction for the various classes of roads. In 1920, the government authorized a loan of 282,800,000 Yens, to be spread over a 30-year period, and to be used for the improvement of national, military, and prefectural roads. Despite the efforts that have been put forth, the road system of Japan is still primitive in character and inadequate for the nation's requirements.

Japan, by 1939, had 200,000 motor vehicles (more than half of which were trucks and buses) and 75,000 motor cycles. This was only 4/10 of 1% of the total number of vehicles in the world. There were some limiting factors in the use of motor cars. The most important was the very low average income, which placed any kind of motor vehicle out of the reach of all but 10% of the population. Actual purchases were further limited by government policy, which considered motor cars a luxury and taxed them accordingly. There was a considerable development of short-haul bus transportation prior to the World War II. Motor truck transportation of freight is restricted because of the relatively high cost of petroleum, and the comparatively low cost of other means of local transportation—particularly boat and barge canal.

3. Water Transport

The government has systematically endeavoured to stimulate the development of Japanese shipping. Since the early days of Meiji era, ships produced in government shipyard, or purchased abroad, were transferred to private interests without compensation, or leased to private companies free of charge. Extensive subsidies were also granted for the construction of private vessels. But it was not until the passage of the Ocean Service Subvention Law in 1909 (still in force) that a general shipping policy was promulgated. Under this Law, in order to be subsidized, ships must be owned by a company of which the partners or shareholders are all Japanese subjects, and which is engaged in carrying trade on European, North and South American, or Australian routes, designated by the government. They must be steel steamships and motor ships, made in Japan, not more than 15 years of age, have a capacity of not less than 3,000 tons, and a speed of not less than 12 knots an hour. The subsidy shall not extend 5 years (except with the approval of the Imperial Diet) : amount of subsidy varying according to the distance of the run, tonnage, speed, and age. These subsidized steamers must carry mail free of charge. The government may also grant subsidies to other ships than those engaged in the trans-oceanic trades designated by the government. The subsidies now paid by the government amount to some 6,000,000 Yens annually.

Japan, by 1939, had 2,225 ships of all classes (excluding naval vessels) that exceeded 100 gross tons, or a total of 5,629,845 gross tons. This total was exceeded only by Great Britain (21,001,925) and U.S.A. (11,470,177). This huge increase in Japanese shipping, between 1918-1939, was due, in part, to a government programme of indirect subsidization: and, in part, to the low initial cost made possible by a small overhead and cheap labour. Production costs were about 55% of those in the U.S., and about 2/3 of those in Great Britain and Germany. Thus, a cargo vessel that cost $ 1,000,000 to build and equip in American yard, or $ 660,000 in British yard, could be turned out by Mitsubishi for $ 550,000. But the basic advantages to the Japanese owner did not lie solely in the $ 450,000 price differential in his favour. He financed his investment with money procured at 1½% annual interest through a government-sponsored loan, and paid no more than 4% hull insurance, as opposed to 5½% in Western countries. Hence, in its 12 or 15 years of first class service, a Japanese freighter carried a fixed cost of about half of that of an American ship of comparable size, and was operated at much lower cost: operating differentials, however, were not so important as the overhead cost.

Japan has always needed about a million tons of shipping to handle her normal peace-time inter-island and coastal trade. This was inordinately heavy, because the numerous small ports (758 trading ports) along her entire coast line make every locality accessible to water transport. Furthermore, it is, of course, much cheaper than rail transport. Another 2½ million tons were normally engaged in traffic between Japanese ports and those on the immediately adjacent coast of Asia—China, Korea, Manchuria, and, to a lesser extent, the island of Sakhalin and the Siberian maritime provinces. This left some 2 million tons that were engaged in world-wide, or, at least, long-tonnage traffic. Two of the 'round-the-world' lines, operating in 1940, were Japanese. Japanese lines held a major position in the traffic lines of all the oceans, but the North Atlantic.

Japan's ship building programme, after World War II, is making a steady progress. Since the close of the war, 217 vessels of 1,092,847 gross tons have been constructed under the government shipbuliding plans. The eighth postwar shipbuilding programme, which covers the fiscal year commencing on April 1, 1952, calls for 300,000 gross tons of shipping, at an expenditure of about £ 44 million (about Rs. 59 crores).

4. Air Transport

Commercial aviation was slow in developing in Japan, because the climate and terrene on Honshu make flying very hazardous. Many mountains are hidden in mist and clouds most of the time. High winds and sudden storms are usual 8 months of the year, and air pockets are common enough to make travel uncomfortable on any but the largest planes.

In 1925, the first air mail was established between Osaka and Tokyo. This was absorbed by Japan Air Transport Company in 1929. The regular civilian lines in operation, at the end of 1930, extended approximately 1,868 miles. The main lines extended from Tokyo to Dairen, Osaka to Matsuyama, Tokyo to Shimizu, and Tokyo to Naiigata. Since 1929, this company received a subsidy from the government for an 11-year period. In 1930, it owned 47, out of a total of 121, civil planes in the country. In 1939, the Japan Airways Company was established with a capitalization of 100,000,000 Yens, and a monopoly of all air lines. In 1938, a 17-hour service over the 2,500-mile route to the mandated islands on the equator was instituted. In 1940, the Tokyo-Bangkok line was opened, and through connections to Europe were available. The same line made a stop at Hongkong to connect China with the American clipper service.

Back in 1947, both North West Airlines and Pan American World Airways extended their routes from U.S.A. to Japan for the first time. Their appearance at the Haneda Airport marked Japan's debut, in the postwar period, in international aviation. Since then, foreign lines have opened routes to Japan. At present, there are 60 regular weekly-flights to and from Haneda. In addition to these, the Japan Airways commenced regular service within Japan last year: and is about ready to commence an oversea service, which will include routes to Okinawa and Formosa, as well as to Hawaii, Los Angeles, and even to Central and South America. Plans are being drawn up to open routes to the southeastern Asiatic areas and to India.

ECONOMIC RECOVERY UNDER 'SCAP' 1945-1952

Japan was in a state of paralysis at the time of surrender. Damages caused by bombardment was one of the contributing factors. Moreover, the loss of oversea territories, sphere of influence, and vast capital investment combined to diminish enormously the production capacity. There was one thing that increased—viz. population, which, from about 70 millions before the war, increased to more than 80 millions owing to repatriation and births. Crippled production, scarcity of goods (especially food) and an increased population—such was the gloomy picture of the country during 1945-46. The result was an enormous rise in prices. The production paralysis was at its worst in 1946. Although Japanese economy suffered crippling damages as a result of the recent war, it has already recovered, in the course of seven years, to a level enabling it to co-operate in the field of international economy with the democratic nations, through the benevolent assistance extended by the Occupation Authorities, and through the assiduous efforts of the people themselves.

When a comparison is made of the economic level of the 1951 fiscal year (April 1951- March 1952) with that of 1946, the year immediately following the termination of the war, the mining and industrial output shows a 4-fold increase, while in export volume, the figures are roughly 10-times the former level. In the case of the actual national income, the increase is approximately 2-fold. The tempo of recovery is hence conspicuously high, as compared to other countries in Europe and America. There are five main reasons why Japanese economy staged a recovery beyond expectations. First, Japan benefited from aid funds from U.S.A. ($ 2 billion). Second, the government investment policy greatly helped industrial recovery by providing necessary funds—especially large credits and lending by the Reconstruction Finance Corporation. Third, private banks contributed by lending enormous sums to industry, creating the problem of overloans. Fourth, with the outbreak of Korean War, special procurement demands by the Occupation brought enormous orders for goods, thus giving industry a chance to increase its production. Fifth, there was considerable idle equipment available in Japan.

Level of Economic Recovery
1934-36 : 100

The 'Economic Investigation Agency' (before August 1, 1952, Economic Stabilization Board) recently made public an 'Economic White Paper', in which an analysis has been made of current economic conditions in Japan and the various issues involved, on the basis of voluminous data gathered:

	1950	1951	Diff.
Mining and Industrial Output	105	131	26
Industrial Investment Level	119	119	0
Import Volume	32	49	17
Export Volume	31	36	5
Consumption Level	82	86	4
Agricultural Production	101	100	1
Total Popoulation	120	122	2
War Procurement Orders	1	6	5
Actual National Income Per Capita	86	93	7

Remarks: The industrial investment is based on the actual supply of industrial funds. The consumption level, the agricultural production, and the actual national income have been calculated acccording to calender pear. The figures for total population are based on an estimate made as of October 1951.

Thus, when we compare the economic level for the year 1951 with that for the prewar period, 1934-36, we shall find that it has already attained the prewar level. In some cases—such as the indices pertaining to population, production, and investment—the figures have surpassed this level: but otherwise—as in the case of national income per capita, national consumption, and the volume of exports and imports—the figures still fall short of the prewar level. Also, the rate of recovery of the national consumption level is slower than the actual national income—this being due to the fact that a larger percentage of the national income has been diverted to capital savings, in the postwar period, to expedite economic rehabilitation. Now let us analyze the contents of above table.

Mining and Industrial Output: We shall first examine the mining and industrial output, whose rate of recovery was the fastest, as compared to the prewar times. The mining and industrial output, for the year 1951, has increased by 31.4%, as compared to the figures for the 1934-36 period. A classification according to industries shows machinery at the top of the list with an increase of 82.1%, followed by materails with 71.8%, and ceramics with 43.8%. However, textiles still fall short of the prewar level by 35.4%. Incidentally, the upward tendency of the production level was most pronounced between March 1950 and March 1951, there being an increase, generally speaking, of 59%. On the other hand, the increase was only 9% between March 1951 and March 1952. In particular, the output of machinery industry, which increased by 78% during 1950, remained at practically the same level during 1951. This, in other words, reflects the stagnant state of investment activities in the domestic market. The loans made by all the banks in Japan for equipment funds reached the peak during April through June 1951, the figures showing a decline since then.

Foreign Trade—Imports: One point that merits particular notice in this chart is the fact that the foreign trade level, for the year 1951, is considerably out of balance, as compared not only to the mining and industrial output, but also to the national consumption level. The reason for this is that production in the postwar period has leaned heavily toward the heavy chemical industries, as compared to the prewar days. In this group, the degree of dependence on oversea markets for the supply of the necessary primary materials is not so high as the cotton industry. Furthermore, the products of the heavy chemical industries have been used extensively by other dependent domestic industries and for the rehabilitation of the national livelihood. In other words, the percentage exported has been relatively small. Also, another cogent reason is the lessened burden of military expenses, which has retarded the recovery of the foreign trade level. Between 1936 and 1945, the army and navy spendings represented about 7% to 8% of the national income, and the heavy chemical industries of the time were unable to administer fully to the needs of the munitions industry. Hence, the volume of imports unavoidably increased, as the equipment needed to supply the necessary commodities and to produce munitions had to be purchased abroad. The funds for these imports were covered by the exports of such articles as textiles and by ocean freight receipts.

Foreign Trade—Exports: It should be pointed out, that while the mining and manufacturing industries showed an increase of 130% in production figures, as compared with the 1934-36 prewar level, exports were barely 30% of the prewar figures. The main reasons for this poor showing may be attributed to the following. First, shipments of raw silk, formerly the main item of export, have shown a heavy slump. Second, exports of machinery fell far short of expectations, although this item had been counted on to play the leading role to take the place of raw silk of the prewar period. This was due to the highly competitive prices in the world markets. Third, the global demand for cotton goods, which represented the major portion of postwar exports, has dwindled to a low level, as under-developed areas have become economically self-sufficient. Fourth, the ubiquitous overproduction had led to intensified export competitions, with no corrective measures to be found. But it is encouraging to note that there is a promising future in store for the chemical fibre industry, which has made notable expansion after the war. The same is true of synthetic fibres, which have made rapid strides in the development of late.

National Consumption Level: Next to the volume of exports and imports, the rate of recovery of the national consumption level has been slow. In other words, the figures for 1951 were about 86% of the 1934-36 level. However, if a classification is made between the city and rural districts, we shall find that the figures for the former were 71%, and for the latter 104%. Expressed otherwise, the rate of recovery in the city districts has been conspicuously slow. This is due to the fact that while most of the cities suffered damages as a result of the war, the farming communities, in the postwar period, benefited from increased incomes as a result of the firm tendency in the quotations of farm products.

Japan's economy, once thrown into a state of chaos and starvation in the early postwar period, has thus finally recovered some order, and further progress is now under way, thanks to the U.S. economic aid and the industrious efforts of the Japanese people.

'SCAP' AGRARIAN REFORM

The system of land ownership in Japan, before World War II, was considered to be an obstacle in the development of agriculture for four reasons. First, there existed millions of poor farmers—mostly tenant. Second, land-owners and their tenants split about half and half the returns from land.

Third, tenants could be deprived of their land at any time. Fourth, farmers constituted an immense pool from where soldiers and cheap labour was obtained. Confronted with these events, the government proceeded to make a more drastic reform on rural land. On July 26, 1946, 'An Outline for Thorough Reforms of Agrarian Institutions', was published, of which the following are essential points. The main object of the reform was to accelerate establishment of owner-farming, the State purchasing and selling necessary lands. By the fall of 1947, former tenants were able to begin buying land. All land to be acquired thus was to be purchased by the end of 1948, but the resale to tenants would proceed until it was liquidated. Administration of the law was placed in the hands of local and prefectural Agricultural Land Commissions, whose members were elected by land-owners, owner-farmers, and tenants.

The impact of this law fell essentially upon absentee landlords, who were required to sell all their land to the government. Due to a progressive inflation, the land price (based on 1939 values) amounted to practical confiscation. The law further provided that non-cultivating resident landlords might own no more than 1 cho (2.45 acres) of land, and that farmer could own and cultivate 3 cho. Price of land purchased was same, and was paid for in land certificates. Resale of lands was made against cash payment, the balance to be paid in 30 years, with interest of 3.2% per annum. Purchasers of farms under this law also benefited from the prevailing high food prices. As a consequence, old farm debts, could be paid and the new land bought in a relatively short time. The tenant farmer had also his position eased by the Agricultural Adjustment Act, which fixed the rents at 25% of the crop value for rice paddies and 15% on dry fields. It also required written leases, improved credit facilities, and was designed to improve the conditions of tenancy.

This reform was carried out, and showed considerable results at the end of each year. Roughly speaking, in 1947, 60% of the land to be purchased was purchased, while 40% was transferred to the farmers having the right thereto. In 1948, 30% of the land was purchased, while 58% was transferred. In 1947, the purchase of the land was the principal task: while, in 1948, the transfer of land was the principal task. By July, 1948, more than 4,250,000 acres had been purchased, and former tenants had bought about 3,000,000 of these acres. The rural land reform was, after all, a reform of land ownership. The basic principle was that 'those who till the land must be the owner.' This land reform progrmame was drastic and was one of the most successful reforms attempted. The tenancy problem had been solved for the time, but the agrarian planning had not met the basic question of 'too many people on too many land'. Also, legislation cannot remedy such short-comings as the lack of modern machinery, and the fact that Japanese farming still rests too heavy on rice culture. But this fact is overshadowed by the huge success achieved in the rural land reform programme.

'SCAP' LABOUR POLICY

'The Japanese government shall remove all obstacles to the revival and strengthening of democratic tendencies among the Japanese people'. This was one of the obligations imposed upon Japan by the Potsdam Declaration. In the field of labour, this obligation was translated into ecouraging the formation of trade unions and fostering collective bargaining, with the unexpected result of fostering communism in communists—dominated trade unions. The labour movement, after World War II, was thus started by a combination of liberal trade unions and of legislation. A strong movement by the trade unions and vigorous activities by the Communists featured Japanese labour movement after the surrender.

1. **Labour Union Law, 1945**: The first milestone in the revival of labour was the Trade Union Law of December 22, 1945. (Its terminology and provisions resembled closely those of the U.S. National Labour Relations Act of 1935). The law guarantees the right of workers to organize and to bargain collectively, and recognizes the right of workers to strike: The laws and regulations, infringing on the activities of labour unions, are made invalid, and employers are forbidden to discharge workers from union activities. SCAP encouraged the unionism of Japanese labour with almost phenomenal success. By the summer of 1948, almost 50% of the entire working class had been unionized. After the coming into force

of this law, the number of newly formed trade unions also increased. On August 1, 1946, the first meeting of the National Federation of Labour (Sodomei) was held. On August 19, the Congress of Industrial Unions was formed. With the formation of these two labour organizations, two opposite groups of labour can be said to have taken a clear stand. The NFL represented the Right Wing, and CIU the Left Wing of the movement.

2. **Labour Relations Adjustment Law, 1946:** While the workers welcomed the Labour Union Law, labour opposed the next major piece of labour legislation—Labour Relations Adjustment Law, passed on September 27, 1946. The law provides machinery for conciliation, mediation, or arbitration, as the parties may select, under the auspices of Labour Relations Committee. There is no compulsory arbitration. The Central Committee has headquarters in Tokyo: each prefecture has such a Committee for settlement of labour disputes. The law moreover gave the government power to extend the scope of public utilities, by designating as 'public utility' any enterprise whose suspension would disturb the public economy, or the people's livelihood. As the workers in public utilities were not given right to strike, this part of the law was objected by labour.

3. **Labour Standards Law, 1947:** Another major gain in the field of labour was the establishment of protective standards. A new Labour Standards Law became effective from September 1, 1947, with the provisions as under. First, a basic 8-hour day, 48-hour week, is required. 25% premium for overtime and night work is mandatory: When the workday exceeds 6 hours, 34 minutes lunch or rest period must be provided. Second, wages must be paid directly to wrokers in full or in cash. Minimum wages are to be set for each industry by a Labour Management Committee. Third, prohibition of juvenile labour under 15, with certain exceptions, and protective standards for women and young workers are provided. Fourth, 30 days' notice or 30 days' pay must be given, in case of discharge. The Labour Accident Insurance Law, a companion law to this legislation, was promulgated for labour's right to receive compensation for injuries received.

4. **Employment Security Law, 1947:** An Employment Security Law became effective on December 1, 1947. It replaced the Employment Exchange Law of 1938, and provided for a system of free public employment exchanges, for government-sponsored vocational guidance and training in connection with the exchanges, and for the prohibition or control of various types of non-governmental recruiting and labour supply activities. Employment Security Bureau of the new Labour Ministry started a training school for prefectural and local officials in such matters as interviewing, referral, vocational training, and labour market analysis.

5. **Unemployment Allowance Law, 1948:** The Unemployment Allowance Law was an interim measure, financed· entirely by the government, to operate for six months till May 1, 1948, when sufficient funds were expected to have been accumulated under the Unemployment Insurance Law to allow it to come into its operation. Coverage includes all concerns employing 5 or more workers engaged in manufacturing, transportation, communications, commerce, trade, finance, and so forth. The administration is through the local Public Employment Security officers, under the Employment Security Bureau of the Ministry of Labour.

Stirred by the brisk labour movement in the wake of the war, the number of trade unions and their membership, which had been 993 and 408,000 respectively in 1935, popped up to 34,688 and 6,250,000 in June 1949—a growth 36-times in the number of unions, and a nearly 16-fold increase in membership. Although the union organization met some abatement due to subsequent internal and external situations, the organized labour still holds a predominant position—with 27,644 unions and 5,690,000 members, in 1951. The presumptive rate of union organization has shown a corresponding increase also. From the prewar rate of 7%, it climbed up to 56% in 1949: and then encountered with a slight abatement, but was still 43%, in June 1951.

'ZAIBATSU'

The term 'Zaibatsu' signifies, literally, plutocracy or money groups: and refers in Japan to four great business houses with extremely widespread economic interests. The four Zaibatsu are—Mitsui, Mitsubishi, Yasuda, and Sumitomo. The first three groups dominated finance, industry, and commerce: while the fourth was known primarily for its banking interests. In reality, each was involved in business activity which encompassed all four fields.

The governments of the early of Meiji had been faced with great difficulties in executing their policy of industrialization, for at that time there was no large middle class with financial resources, with experience of modern industrial and commercial techniques, or with the habit of initiative. Fortunately, there were available a few business families, which, for centuries, had been engaged in banking and commerce on a large scale, and had served as agents of the 'Daimyo' (feudal lord before Restoration), in the management of their revenues. The new Meiji governments naturally turned to these families for financial help in tiding them over their initial difficulties, and they looked to them to carry out any financial or commercial operations, or to launch any new enterprises which were considered necessary as part of the general policy. These families, thus, became the agents for the execution of the governments' economic policy. This soon led to a concentration of economic power in them.

In return for the financial assistance which they gave the government, the Zaibatsu, from time to time, acquired State properties at low prices, and received valuable contracts. They earned large profits from underwriting government loans. They helped to capitalize, often jointly with the government, enterprises of strategic importance at home and in the colonies. A very large section of new large-scale industry was either developed by them or brought under their control. From time to time, generally in periods of financial crisis or slump, when certain older business families failed, their properties then were usually acquired by one of the Zaibatsu. Further, these giants, in the 1920's, were invading business fields previously reserved to small businessmen. Mitsui, particularly, by loans and by forcing small competitors to accept technical advice, was penetrating deeply into the great mass of small-scale enterprises. Consequently, by 1929, the Zaibatsu reached the Zenith of their power, occupying a position for which there was no parallel elsewhere in modern times. They could, to an increasing extent, impose their wishes on the government.

To believe, however, that Japanese economy was not also highly competitive would be a serious error. Even among the Zaibatsu, the fiercest competition existed, as is indicated by the overlapping interests of each group. Competition existed in certain fields of industrial activity—e.g. silk, lacquer, pottery, and handicrafts—the products of which remained primarily for the Japanese market. Their keen rivalry extended also to the political sphere. Nevertheless, they tended to make a common front when faced with militarist groups, and some co-operated mutually by investing in banks, trust companies, and other enterprises controlled by them. They also helped to capitalize jointly, along with the semi-official Industrial Bank of Japan, electricity-generating companies and colonial enterprises of national importance.

Financial Cliques

1. **Mitsui:** The greatest of the Zaibatsu was 'Mitsui Gomei Kaisha', a holding company, that owned at least 2/3 of the voting stock, either directly or through the control of intermediate companies, in some 125 corporations, said to transact nearly 15% of all the country's business. These included Mitsui Bank, Mitsui Life Insurance Co., Mitsui Trust Co., Mitsui Bushan Kaisha—itself a gigantic holding company that controlled more than 30 manufacturing, shipping, and trading concerns, making and dealing in steel, silk, cotton fabrics, drugs, and poultry feed. Together, they controlled 40% of all Japan's export business.

2. **Mitsubishi:** 'Mitsubishi Goshi Kaisha' was second to the Mitsui organization in scope of its activities, and in number of corporations it controlled. In bulk of business, it was said to be slightly smaller than the Mitsui Company. By 1939, there were the following 8 principal Mitsubishi subsidiaries—Mitsubishi Bank, Mitsubishi Trust Co., Mitsubishi Heavy Industries (shipping, dry docks, engines, motors, air-

craft manufacture), Mitsubishi Mining Co. (including iron and steel manufacture), Mitsubishi Trading Co. (including the great NYK shipping lines), Mitsubishi Estate Co. (exclusively operating in real estate at home and abroad), and Mitsubishi Warehouse Co. (customs brokers and stevedors).

3. **Sumitomo:** Just before World War II, 'Sumitomo Goshi Kaisha' controlled a bank, a trust company, an insurance company, 5 mining companies, 5 companies in metal trades, and several other organizations—some producing hydro-electric power, and others engaged in building, shipping, warehousing, and forestry.

4. **Yasuda:** Next in size was 'Yasuda Hozensha Kaisha', which controlled 30 corporations in 1938, most of them in banking, trust, and insurance business. In manufacturing field, there were Imperial Flax Co., and Nippon Paper Co. Like many of the other Zaibatsu, it has not been able to keep out of the textile trade, which has been Japan's principal source of overseas revenue since World War I.

Even with all its success in industrialization and with the Zaibatsu monopoly, a surprising large percentage of Japan's manufacturing remained in small units.

'Scap' Policy

The Zaibatsu had supplied much of the financial and industrial power required by the government prior to and during World War II. They also acquiesced in and helped with the economic phases of Japanese foreign policy. SCAP advisers believed that without the assistance of a healthy middle class, the small businessmen, labour unions, and the farmers would have little chance against these 'financial giants'. The programme, designed to encourage and protect these groups, was developed through its first two years without interruption.

In October 1945, Yasuda, on behalf of the 'Big Four', submitted a plan for the dissolution of Zaibatsu. A Holding Company Liquidation Commission was established the following April, which took over the sale to the public shares of the five largest Zaibatsu holding companies. Then the assets of 10 wealthiest families were 'frozen' in October, 1946. This action was followed by a heavy capital levy, which, together with inflation, cut deeply into private fortunes. Income and inheritance taxes, sufficiently onerous to prevent such concentrations of wealth in the future, were adopted. The climax was reached with the passage, on December 9, 1947, of the Economic Deconcentration Law, by which Japanese corporations were to be broken into small units, and greater competition was supposed to result. With the promulgation of an anti-trust law, the Japanese had all the legislative protection against the Zaibatsu which could be given.

But this policy created an atmosphere of uncertainty, which was reducing efficiency of Japanese industry. In the summer of 1947, industrial production had fallen to 1/3 that of the 1930-34 base period. The morale and efficiency of the workers had been hurt by the scarcity of raw materials and the obsolete equipment in use. The managerial class, in many cases, had been banned. but no acceptable substitution had been found. The policy was, therefore, abruptly changed. Faced with deteriorating relations with Soviet Russia and with a weak China, the U.S., as early as May 1947, announced that Japan was to serve as a base for the reconstruction and recovery of Asia. By the end of 1949, the dissolution of corporations virtually had been halted. The years since 1949-50, therefore, showed increase in industrial productivity, indicating that Japan could again become the 'workshop of the Far East'.

PART FIVE

RUSSIA

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ECONOMIC BACKGROUND

Russia, prior to Bolshevik Revolution, represented an economy in which the latest capitalist imperialism was entwined with a particularly dense network of pre-capitalist relations—i.e. a very backward agriculture and a very primitive village co-existed with a very advanced industrial and finance capitalism.

Industry

Capitalist industry had, in certain regions, shown a remarkable development since the 1880's—e.g. in the coal and iron regions of Donetz and Dnieper in the South, in the Moscow region and in the neighbourhood of Petersburg, and in Poland. Most of the factories were foreign owned and foreign financed (mainly French, British, and Belgian) and staffed by foreign managerial and technical personnel. Since the 1880's, it was importing foreign capital to the tune of 200 million Rubles annually, and, by 1917, the total foreign investment in Russia was 2 milliard gold Rubles. Many wage-workers in factories were semi-proletarians—in the sense that they often returned to their villages in summer to help their families with the harvest. Capitalism still very largely took the primitive form of 'Putting Out System', under which work was given out by capitalists (who played the dual role of merchants and manufacturers) to domestic workers, or to some sub-contracting masters owning handicraft workshops.

Agriculture

Russia, prior to Revolution, was the exporter of raw materials and agricultural products, and importer of finished manufactures (chemicals, metals, machinery, and others). It led the world as a grain exporter, and supplied nearly 1/3 of wheat imports and 1/2 of other grains imports of Western Europe. Yet, the productivity of its agriculture, which constituted the livelihood of nearly 4/5 of its population, was extremely low. The proportion of the cultivated land, as well as the average yield per acre, was relatively small, as compared with that of either U.S.A. or Germany. This low agricultural productivity may be attributed to the following factors:

1. Primitive character of farming technique. The 'Three Field System' predominated in most parts of the country, which necessitated 1/3 of the arable area lying fallow every year. Many village Communes, moreover, continued to practise periodic redistribution of land among their members. Even in those Communes where this did not occur, a farmer's land was held in scattered strips, often at long distances (5 to 6 miles) from one another and from the village.

2. Lack of balance in holding. In the Southern Steppe region, the shortage of pasture, and hence of livestock, was responsible for the extreme shortage of manure: while in the North and North-West, where available pasture was more plentiful, and meadow lands were more valuable than arable, it was precisely the former that the landlord had striven to keep in his possession at the Emancipation Settlement. Peasant lands, therefore, remained deficient, even though the peasant holding was generally larger.

3. Tendency of large estates and well-to-do 'kulaks' was to develop the cultivation of specialized crops with an urban or an export market—e.g. sugar beet, flax, ~~and dairy~~ farming. They were responsible for most of the marketed produce.

4. Most important of all was the prevalence of usurious contract. In this system, the rich peasants advanced to the poor peasants seed corn in the spring against future repayment either in money or in a share of the crop after the harvest. These peasants, in urgent need of cash after harvest, were apt to glut the market after harvest period. Rich peasants, therefore, could buy up the grain at low price, store it, and release the very same during the spring, when prices were higher. The poor peasants, who parted with it in the previous autumn, had to buy the same produce at exhorbitantly higher price (30% to 50%) to tide over the period of sowing and harvesting. To augment their earnings, therefore, these poor peasants had to work for wages, or undertake some domestic handicraft industry.

Society

The village 'Commune' (Mir) since centuries kept alive the notion that the right to holding and using land derives exclusively from working that land. The periodic redistribution of land by the Mir was the instrument for resisting any concentration of land ownership, and the formation of a landless proletariat to be a labour reserve for capitalist industry.

During the years of Revolution, there came into existence Soviets of workers' delegates, elected from factories and professional organizations, as organizing centres for the popular movement, and to whom the peasants and workers came to look for any sanction of authority they required in taking direct action against landlords' estates, or factory managements. This revolutionary organization—'the Soviets of Workers' and Soldiers' Deputies', though weak and embryonic at that time, was to emerge as the real, growing, and powerful government in subsequent years.

'WAR COMMUNISM'
1918-21

The Bolshevik Party, which came in power in Russia after the October Revolution in 1917, aimed not merely at altering the economic system which then existed in Russia, but completely superseding it by a socialist system, which aimed at establishing an organization in which industrial production would be directed, not by entrepreneurs competing among themselves, but by society according to a plan, designed to satisfy the needs of all people. Society would expropriate from private ownership all means of production, transport, and distribution, and would dispose of them according to a plan, and with definite aim in view. From the middle of 1918 upto March 1921, was the period of so-called 'War Communism', during which the conditions brought about by civil war, foreign intervention, and rapid disintegration of the country's economy caused the Soviet government to a hasty nationalization of the whole national economy, to an extreme centralization of the economic administration, and to the adoption of the principles of War Economics.

Toward Nationalization

A decree was published on November 14, 1917, providing for Workers' Control, (or, more accurately, participation), in the direction of industry. Factory Committees were given the right to supervise management, to determine minimum production levels, and to have access to all correspondence and accounts: but the right of proprietors to give orders was explicitly upheld. In this way, the Soviet government sought to continue the use and skill of production managers, while keeping them under the scrutiny of workers' groups, which, presumably, would seek to guard against sabotage. Meanwhile, it was decreed to create the 'Supreme Economic Council' to prepare the general norms and plans for the regulation of economic life of the country—for the centralized co-ordination of economy. The decree on Workers' Control aimed at bringing large nationalized enterprises and key industries under the jurisdiction of the Supreme Economic Council.

In industry, the policy was initially to nationalize only particular large firms either because of their importance, or because of sabotage by owners who refused to continue production, or work under the system of Workers' Control. By June 1918, some 521 large factories had been taken over by the State. During this period, the situation became ever more anarchic, as increasing shortages of materials, transport disorganization, and currency chaos made their effects felt on production. In addition, strong syndicalist tendencies became evident at many factories, where the workers acted under the impression that under the new regime they could take over the factories and operate them as they saw fit for their own benefit. The functioning of such privately-owned enterprises was becoming impossible, and the resulting production decline harmed and endangered the new State.

The result was the decree of June 28, 1918, nationalizing practically all large-scale industries, with more than a million Rubles of capital, in mining, metals, textiles, glass, leather, cement, timber, and electrical trades. This decree was quickly implemented, and within 6 months a series of particular decrees followed, nationalizing the whole groups of enterprise or sections of an industry. After it had become evident that the operation of the nationalized plants depended on the functioning of small enterprises for some of their supplies, and that the majority of the most essential consumer goods were produced in small enterprises, it was decreed, on December 29, 1920, to nationalize all industries employing more than 5 workers where mechanical power was used, and more than 10 workers in purely handicraft trades. Banking had already been made a State monopoly on December 27, 1917, when all existing banks and their assets were merged into the State Bank. The end of 1920 witnessed some 37,000 enterprises in the net of nationalization. Direction of these new State industries was entrusted to the Supreme Economic Council, which was thus transformed from a co-ordinating and planning group into an operating agency with greatly expanded functions and personnel.

In the meanwhile, the State eliminated the free exchange of commodities, and with it the apparatus of free market. This was achieved by establishing State monopolies in the exchange of various types of commodities. During 1918-19, State monopolies were extended to almost all objects of productive and industrial consumption—e.g. provisions, industrial goods, raw materials, and so on. Already, in August 1918, a decree stipulated for the settlement of products, delivered or received, by means of book entries only, thereby eliminating money as a medium of transaction between the State undertakings. Another decree of November 1918, prohibited all private internal trade, and made Narcomprod the sole authority for supplying consumption goods to the population. By March, 1919, all independent co-operatives were virtually merged in the State supply apparatus of Narcomprod. State monopoly of foreign trade was already instituted on April 23, 1918.

In the sphere of industry, too, similar centralization took place. Industrial enterprises were divided into three categories. The first category—which consisted of large-scale enterprises of national importance—were placed directly under the appropriate 'Glavki' (sub-departments of Supreme Economic Council specialized to a particular sphere of industry). The second category—which consisted of enterprises which served the national market, but were medium-sized and constituted a highly localized group—were placed under special industrial sections of 'Gubsovnarhozy' (organizationally similar to central Glavki). The third category—which consisted of small-scale enterprises, local in character, and drawing their material and finding their market in the districts—were placed under Gubsovnarhozy.

With the quick pace of nationalization, the number of enterprises in the last two categories rapidly increased.

Gubsovnarhozy, therefore, had their hands fully occupied to pay much attention to enterprises in the second category, while.the central Glavki became congested with the work of handling numerous medium-sized enterprises, with which they had slender contacts, and about which their information was meagre, and sometimes virtually non-existent. The Supreme Economic Council, therefore, completely failed to fill the proud role of co-ordinating all economic activities, until, towards the end of this period, the Council of Defense was broadened into the Council of Defense and Labour, in order to fill this supreme co-ordinating role.

Soviet Land Policy

Pre-revolutionary Russia was an agrarian country. The agrarian population constituted the predominant part of the total population, while agricultural production furnished the main part of the national income of the country. On the eve of Bolshevik Revolution (1917), Russian agriculture presented a complicated knot of political, social, and economic problems. Ownership of land was divided between the estates of the landed gentry, land of the State and crown apparages, estates belonging to covenants and monasteries, estates belonging to industrial and mercantile capitalists, and small peasant farmers privately owning land. All this private property was scattered in the sea of 'community' land, used by the majority of the agricultural population.

One of the most important effects of World War I on Soviet economy was the fall in the proportion of crop, which peasants were willing to market, as the manufactured goods, available for exchange against agricultural products, became scarce. The new Soviet government, in March 1917, declared the grain trade a State monopoly. All grain, except grain needed for the maintenance of peasant households and for sowing reserves, was to be delivered at fixed prices to the State purchasing bodies. This measure, however, was ineffective in abolishing private trade in grain. Soviet government, therefore, by a Land Decree of November 8, 1917, abolished the landowners' right to possession of land: and the estates of landowners, together with all crown lands, monastic and church lands—including all livestock, agricultural equipment, and farm buildings—were transferred to the dual enterprises of the country. In its earlier years, the SPC confined itself largely to making studies and reports on particular problems—such as the reconstruction of the Donbas coal basin, while it slowly gathered the information and personnel required to enable it to draw up a comprehensive plan. It also tried to co-ordinate the activities of different departments by acting as an 'umpire' in deciding between their rival claims for resources. But this was hardly 'planning' in the true sense.

'Control Figures'

A closer approach to a comprehensive plan came with the publication of annual Control Figures for the year 1925-26. Control Figures were described as no more than approximate directives for the work of formulating actual operational plan—a merely first step toward the creation of an economic plan. The intention of the SPC was that Control Figures should be submitted to various economic Commissariats, including industry both at the union and republican levels, after which the latter were to submit their own departmental programmes to the SPC by mid-September, together with such criticisms they might have of these Figures. Within a month, the SPC would issue its comments to these departmental plans. In the light of this interchange of projects, the definitive plan for the next year would be sanctioned by the Council of Defense and Labour (STO).

In short, the Control Figures set up approximate goals for the major areas of the economy, based on an over-all view of the resources available, and the possibilities for further progress. These were followed by similar Control Figures for 1926-27, and then for 1927-28, each year's effort being based on better and more comprehensive data. In 1926, an important step was taken toward the official recognition of the Control Figures. It was laid down by the government that if the operational plans of any department correspond to the Control Figures, as confirmed by the Council of Defense and Labour, no further confirmation of these plans by the higher authority was necessary. Thenceforth, the practice of ratifying the Control Figures as the operative annual plan was adopted, instead of ratifying separately a series of departmental plans.

FIRST FIVE YEAR PLAN
1928-1932

The Soviet government was under obligation, by reason of its social policy and its programme, to give high priority to the extension of collective forms of economy. This was, of course, an economic asset since it facilitated the centralized planning of construction. At the same time, it had the consequence that an agricultural surplus could not be obtained by encouraging the growth of large-scale individual farming, since this would have opened the door to a revival of capitalism in the country side. It was, therefore, necessary for the Soviet economy simultaneously to carry through a policy of highspeed industrialization and a socio-economic revolution on the basis of peasant agriculture. Toward the end of 1925, therefore, the government resolved on the industrialization of country, including the independent development of heavy industry, as a firm foundation for future building.

The State Planning Commission, in August 1928, issued a preliminary model of a five year plan covering the period from the autumn of 1928 to the autumn of 1933. It was finally approved by the Party Congress, in April 1929, as the definitive First Five Year Plan of the U.S.S.R. although the execution of the Plan had begun late in 1928. Over the first quinquennium, the net amount to be invested in the economy, as a whole, was set at the surprising figure of between 1/4 and 1/3 of the national income—a proportion 2½ times that in pre-1914 Russia, and about twice that in pre-1914 Britain. Of the amount to be invested in industry (about 1/3 of the whole), 3/4 was assigned to heavy industry alone. The investment programme, thus, formed the backbone of the Plan.

During the first two years of the Plan, the process of reconstruction proceeded smoothly enough. The supply of certain technical crops increased largely due to an upward revision of the official purchase price. The rise in grain prices proved to be appreciably more than had been anticipated. Collectivization was progressing remarkably: the beginning of 1930 saw 4 million peasant holdings (2/3 of planned target) in Collective Farms. In 1930, the bumper harvest provided export surplus. Industrial output increased 24% (planned estimate

21½%), and labour productivity reached the target figure (17% increase annually).

It was in this optimistic atmosphere that a decision was taken to accelerate the tempo of development above the level of the original Plan. For the year 1929-30, figure for investment, both in industry as well as in economic system, was raised by about 1/3 over the figure of that year in the original Plan. The figure for industrial production was advanced by 1/8, so as to raise the rate of increase in production substantially above the figure of 21%, which had been set as the annual rate of increase for the whole quinquennium. The most drastic revisions were made in the sown area, and production of the State and Collective Farms, which were advanced by 50%.(?) This precedent was followed in subsequent years. The official date for the termination of the Plan was eventually set at the end of calender year 1932—i.e. 9 months earlier than had originally been designed.

Industrial Progress

The Plan attained its primary objective—i.e. the construction of heavy industry on a firm basis—with brilliant success. The gross output of capital goods industries increased 2½ times, output of machinery of all kinds increased 4 times, output of oil increased 2 times—all exceeding the planned target. Output of electric power increased 2½ times, but it fell short of planned rate. The production of large-scale industry as a whole increased 118%, but it was slightly short of 133%, planned for 1932.

Curiously enough, iron and steel were laggards falling substantially behind the Plan, although the tonnage of pig iron nearly doubled, while steel output grew by more than 40%. Coal again was about 10 million tons short of the 75 million tons, set as the target for 1932. Nevertheless, this industry had to its credit the construction of 17 new blast furnaces, and the bringing into use of another 20 by reconstruction and modernization, thereby increasing the total number from 69 to 102: installation of 45 new open hearth furnaces, in addition to the reconstruction and modernization of 21 more: 15 new rolling mills, plus 12 reconstructed ones: and the foundation was laid for 2 iron and steel centres.

The original Plan had envisaged an increase of workers in industry by 1/3, and of all wage and salary earners by just under 40% : actually, by the end of 1932, the number in both cases almost doubled. Similarly, the original Plan had budgeted for an increase of money wages by 50% : actually, by the end of 1932, the average wage doubled.

During the first quinquennium, the actual investment in industry turned out to be higher by nearly 1/3 : in heavy industry alone, by nearly 1/2, compared with the original estimates. This unprecedented advance, it should be noted, was done at the expense of investment in consumption goods industries, where development programmes were curtailed.

Agricultural Progress

Collectivization : The government need for grain increased rapidly in 1928 and 1929, as its programme of industrialization got underway, with a corresponding increase in industrial and construction workers who had to be fed from government controlled supplies. With even greater supplies to be required in the future, as industrialization proceeded still further, the pressure for a solution satisfactory to the regime mounted sharply. In 1928 and 1929, therefore, the formation of new Collective Farms and the entrance of peasants into them increased sharply, as the poorest farmers, destitute of virtually all capital required for production, were attracted by promises of generous government aid—including credit, machinery, and technical assistance. The events moved very rapidly thereafter. Whereas, in November 1927, there were only 14,832 Collective Farms with 195,000 peasant families, in March 1930, there were 110,200 Collective Farms with almost 14,300,000 peasant households—i.e. 55% of all peasant families. The most rapid agricultural transformation in history had been accomplished.

The opposition of kulaks and rich peasants began to be more and more pronounced, while Collective Farm movement was progressing. It ranged from passive resistance and boycott through spontaneous slaughtering of cattle rather than consign them to the new Collective Farms, to acts of arson and violence against the new Collective Farms and their personnel. Soviet policy, therefore, abrupty changed from one of 'encircling' the kulak to one of 'eliminating' kulak as a class. This policy took many forms—e.g. repealing the concessions with regard to leasing land and hiring labour, authorizing village Soviets forcibly to expropriate the machinery, working capital, and other farm property for the benefit of Collective Farms, and even extensive deportation of kulaks. Collective Farmers, on the other hand, were granted substantial preferences—e.g. exemption from all animal and livestock from tax for two years. They were also aided by being given machinery, seed, and credit, while the burdens on individual farmers were considerably increased. Consequently, by 1936 (during Second Five Year Plan period) almost 90% of the peasantry, and virtually all the peasant-sown area, were included in 245,700 Collective Farms. With this victory over the independent peasantry, the Soviet State won complete control of the economy of the U.S.S.R.—a control that has not been seriously challenged since then.

State Farms: Collective farming was a middling-long-term expedient for solving the difficulty of supplying agricultural produce to an expanding industry and an expanding population. The short-term problem, more urgent and insistent, of filling the gap in the grain supply, was solved by launching a programme of building large-scale State Farms. A special Grain Trust was formed: it was charged with the duty of instituting extensive grain farms of 100,000 acres or more in several regions. In 1928, there were 3,000 such farms. In 1932, when the cases of mismanagement and inefficiency came to light, State Farms were reorganided on the following lines. First, a number of farms with low yield were abandoned. Second, the Grain Trust was split up into some 20 Regional Trusts: a maximum of about 50,000 acres was set the size of a farm with each constituent department of it, occupying a crop area of about 5000 acres. Third, the extreme specialization of crops in grain farming was abandoned in favour of greater diversification of crop, with great emphasis on crop rotation and the inclusion of livestock. Between 1928-32, the sown area under State Farms increased 8 times—embracing 1/10 of the total sown area of the country, while their supply of grain to the State was 4 times. They employed about a million workers—i.e. 2000 per farm, and possessed more than 1/2 of all the tractors.

Machine Tractor Stations: Collective Farms were being serviced by tractor teams of the Machine Tractor Stations, in return for the payment of a certain fraction of the harvest. A considerable advantage claimed for these MTS was the saving of capital in mechanization of agriculture, which resulted from an increase in the degree of tractor utilization, and from the economies of machines, buildings, and repair services. At the same time, increasing attention was paid to improved rotation, introduction of fodder crops into the rotation, early ploughing of fallow, and the application of artificial manures to land under industrial crops—especially beet and cotton.

By the end of 1932, the last year of the first quinquennium, State and Collective Farms together supplied 84% of the marketable surplus of grain, and 83% of the marketable surplus of cotton. The new forms of agriculture, thus, occupied the most significant place in the food supply of the country, and created a raw materials base for industry and export.

SECOND FIVE YEAR PLAN
1933-1937

The fundamental and decisive economic task of the Second Five Year Plan was the completion of technical reconstruction in the whole economy: so that on its termination, some 4/5 of all industrial output would come from new enterprises built, or completely reconstructed and modernized, during the First and Second Plan period.

It was emphasized that the lagging of iron and steel production should be overcome. An impressive volume of new construction—which included 45 new blast furnaces, 164 open hearth furnaces, and 107 rolling mills—was to be put into operation over the second quinquennium. The 1937 targets for iron and steel were set at 16 and 17 million tons respectively—i.e. an increase, in each case, of more than 2½ times the 1932 figure. The rise in labour productivity that was called for, by 1937, was set at 63%—i.e. 2/3 of what the First Plan had initially stipulated.

Linked with these tasks for iron and steel, were two further ones affecting heavy industry. First, to extend the range of machine-tool production—such as milling and grinding and gear-cutting machines—and automatic and semi-automatic machines. Second, to develop the production of a considerable range of nonferrous metals—such as copper, zinc, nickel, tin, aluminium—which previously had to be imported, and were in growing demand by the electric and defense industries.

The economic progress under the Second Plan was much smoother and more impressive. The special difficulties, which had marked its predecessor, had now been left behind. In particular, the grain supply to the towns was no longer a cause of serious anxiety, as the battle over collective farming had already been won: and the productivity of labour far exceeded expectations, chiefly owing to the rise of the Stakhanov Movement. Surveying the achievements under the first two Plans over the decade 1928-38, we may conclude as under: The output capacity of iron and steel industry had been expanded 4 times, of coal by 3½ times, of oil nearly 3 times, and of electrical power by about 7 times. At the same time, the whole range of new industries had been established—such as aeroplanes, heavy chemicals including plastics and artificial rubber, alluminium, copper, nickel, and tin. U.S.S.R. had become the largest producer of tractors and railway locomotives in the world, and the second largest producer of oil, gold, and phosphates.

Inspite of this impressive development, the output figures, when measured per capita of the population, remained below those of Western countries, even though, in absolute output, many branches of Soviet industry had attained their objective of 'catching and overtaking the economically and technically advanced countries of the West'. With the exception of grain, the per capita supply of foodstuffs remained well below the standards of most European countries, and of America.

THIRD FIVE YEAR PLAN
1938-1942

The Third Five Year Plan, originally intended to cover the years 1938-42, showed the influence of direct threat of war existing in the late 1930's. Pre-occupation with considerations of defense was, therefore, evident in the main emphasis of the Plan. Allocations for national defense from the Budget, in 1940, were double the 1938 figure—equal to the allocations for capital investment in the economic system as a whole. Defense and investment, in other words, swallowed half the national income, before it entered the War.

Main emphasis was placed on machine building, production of non-ferrous metals—like aluminium, zinc, lead, nickel—transport improvement, and chemical industry. Special stress was also laid on the development of new industrial districts in the East: e.g. the development of third centre of aluminium production at Kamensk (Urals) close to the bauxite deposits of considerable richness, and the development of new and rich deposits between the Volga and the Urals—the so-called 'second Baku'. This development programme occupied a special prominance in view of the fact that the expansion of fuel and power supplies had begun to lag far behind the needs of industry and transport, despite the impressive growth of electricity and coal during the previous decade.

Of the gross capital investment in industry, only 15% was assigned to the consumption goods industries—i.e. equal to the proportion assigned under the First Five Year Plan. The rate of increase of heavy industry was to be substantially greater than that of light industry, increase in output being placed at 103% and 69% respectively. The production of capital goods was to have a value-weight, in the output of all industry, of more than 60%. Machine-tool production was to surpass the 1929 output level of U.S.A.

Such were the ambitious aims of peaceful construction of its economy. But the progress was soon interrupted by the German invasion. Consequently, it lost between 1/2 and 2/3 of her prewar output of coal, about 60% of her production of iron ore, about 1/2 of her prewar capacity in steel, between 1/3 and 1/2 of her grain lands, and factories employing 4 million workers were partially or wholly destroyed. Rehabilitation and reconstruction of economy was, therefore, the task of the plan that followed.

FOURTH FIVE YEAR PLAN
1946-1950

Shortly after the World War II, in March 1946, the U.S.S.R. Supreme Soviet approved the Fourth Five Year Plan for the Rehabilitation and Development of the National Economy of the U.S.S.R. for the period 1946-50. The Plan's chief objective was to rehabilitate the country's war-ravaged areas, to restore industry and agriculture to the prewar level, and then to exceed that level.

The most urgent task of this period was to rehabilitate the districts devastated by German forces. In these districts, they put out of action iron and steel mills with an aggregate yearly output capacity of 11 million tons of pig iron, 10 million tons of steel, and 8 million tons of rolled metals. In the Donetz and Moscow coal fields, they wrecked mines with an aggregate output capacity of 100 million tons of coal. After the war, the government assigned enormous sums for this purpose. Consequently, the prewar level of industrial production in the liberated districts was not only reached, but exceeded. These districts are now producing more coal, electrical energy, tractors, cement, phosphates, and so forth, than they did before. Iron and steel, machine building, and all other branches of industry were also restored at the same rate. Efforts were also made to rehabilitate agriculture in these districts. In 1949, the gross crops of grain, sugar beet, flax, sun-flower, seeds, potatoes, and other agricultural crops exceeded prewar level.

Industrial Progress

The industry of U.S.S.R. carried out the Plan ahead of schedule: i.e. in 4 years and 9 months. The Plan provided not only for raising industrial production to the prewar level, but also for the achievement in 1950, the last year of the quinquennium, an increase of 48% above that level: actually, in 1950, gross industrial output exceeded the prewar level by 73%. The plan for capital investments was exceeded by 22%. During this period, 6000 industrial enterprises were restored, or newly built and put into operation, not counting small State, co-operative, and Collective Farm enterprises.

The leading factor in this development was the primary heavy industry. The Plan provided for an output of iron and steel that was to be 35% above the prewar level: actually, the 1950 output was 45% above that level. The Plan provided for coal output in 1950 that was to be 51% above the prewar level: actual increase was 57%. The oil output in 1950 was 7% above that provided in the Plan, and 22% above the prewar level. The electricity output, in 1950, was 10% above that provided in the Plan, and 87% above the prewar level. The output of chemical products exceeded the prewar level by 100%. The chief factor in this technical reconstruction of the entire economy was the machine building industry, the output of which exceeded the prewar level by 130%. It greatly increased the output of equipment for the metallurgical and oil industries, and for electric power stations: and produced a large quantity of machines for agriculture, and the transport services.

The introduction of new types of machines facilitated the technical re-equipment of economy on an extensive scale, and further mechanization of laborious processes and heavy work. Consequently, the productivity of labour in industry was 37%, and in building industry 23%, above the prewar level.

The textile, clothing, knit goods, and other branches of light industry were quickly rehabilitated and developed. In 1950, the total output of these industries was 17% above that of 1940. There was also a great increase in the output of principal items produced by the food industry. In 1950, the gross output of the local industries and of the producers' co-operatives was 50% above the prewar level.

Agricultural Progress

The state of agriculture, after the war ended, was deplorable. The war had drawn large number of workers away from the fields, the crops area had shrunk considerably, the amount of agricultural machinery available and the number of livestock had diminished. The damage caused by the war was aggravated by the severe drought in 1946. But the growth of industry made it possible to improve the material and technical base of agriculture. During 1946-50, agriculture was supplied with 536,000 tractors, 93,000 grain harvest combines, 844,000 tractor-drawn ploughs, seed drills and cultivators, and a large quantity of other agricultural machines. Extensive work was done in the electrification of State and Collective Farms and the MTS, and introduction of proper field and fodder crop rotation in those farms.

Consequently, the grain crop area exceeded the 1940 level by 345 million poods (over 5,500,000 tons), thus exceeding the target of the Plan. The area under industrial crops increased 59%, and the gross output of cotton, sugar beets, and other industrial crops increased considerably. The number of herds and flocks also exceeded the Plan: Thus making it possible to increase the output of meat, fat back, milk, butter, eggs, and other produce to be supplied to the towns and other industrial centres, and also the output of leather, wool, and other raw materials for light industry.

Another important factor in the organizational and economic strengthening of Collective Farms, in the postwar period, is the amalgamation of small Collective Farms into large ones. The consequent increase in Collective Farm production resulted in an increase in the incomes of Collective Farms. In 1950, the 'Indivisible Funds' of the Collective Farms showed an increase of 50% over those in 1940.

At the same time, a Currency Reform was carried through. During the War, government's expenditures on war needs were so high that it was necessary to resort to the emission of currency on a very large scale. Moreover, in the regions they occupied, the Germans issued large quantities of spurious currency, which depreciated the value of the Ruble. In view of this, the government decided to withdraw the old, depreciated currency, and to issue new, full value currency in its stead. Moreover, the uniform reduced retail prices were fixed for all the consumer goods. From 1947 to 1952, five reductions in prices were made—thus causing an increase in the purchasing power of the Ruble.

The growth of industry and agriculture was accompanied by the steady improvement in the welfare of working people. The national income—i.e. 'the value of new wealth produced in a given year'—is steadily growing. In 1950, the national income of the U.S.S.R. was 64% above that of 1940, instead of 38% as was planned. In 1950, Soviet citizens received 74% of the national income for the satisfaction of their material and cultural requirements: The other 26% remained in possession of the State Farms, Collective Farms, and co-operative organizations, for the purpose of expanding production, and other national and public needs.

AGRICULTURAL ORGANIZATION

Agriculture, like other parts of Soviet economy, is directed by the national economic plan. Agricultural objectives set down in the five year plans cover such matters as acreages to be planted in different crops, average yields to be attained for each crop, the growth of livestock herds, expansion of farm machinery, the extent of irrigation projects, and so on. The actual work of raising crops and livestock is mainly carried on by two kinds of farms—the Collective Farms (Kolkhozy) which produce the great bulk of agricultural output: and the State Farms (Sovkhozy) which produce a much smaller fraction of farm produce, but are extremely important in some specialized products. Another major unit important in production is the Machine Tractor Station, which works closely with the Collective Farms.

1. Collective Farms

A Collective Farm, in theory, is a democratic, co-operative association of farmers, who have pooled their land and capital to form a large enterprise, which they operate in common, sharing its proceeds in proportion to the quantity and quality of work they do. Initially, during the 1920's, three major types of collectives were experimented with : the 'Toz', the 'Artel', and the 'Commune'. To-day, the Artel is the standard type of Collective Farm in Soviet Union.

The Toz (Society for Joint Cultivation) was simply a production co-operative. Farmers joined together to work their land, and to buy and use expensive machinery: Each owner retained personal rights to his own plots of land, harvest on this land, livestock, and tools. In the Commune all production capital—i.e. livestock, machinery, barns, implements, and so on—was owned by the group, whose members used them co-operatively in working the land. Members lived in community dormitories, their food was cooked in community kitchens, and their children were cared for in community nurseries.

The Artel is intermediate between those two forms. In it, most production is carried on collectively, and most means of production are owned by the Collective Farms. But some private production is carried on separately by each member of family. Each member owns some agricultural capital—such as livestock and simple tools. He also shares in the result of the collective work in which he has participated. He thus receives both a collective and a private income, which he and his family can consume as they wish. Obviously, this is a compromise between fully 'individualistic' and fully 'socialistic' production.

The Soviet Collective Farms are large mechanized agricultural co-operative undertakings. The average Collective Farm cultivates 1,500 to 3,000 hectares (3,700 to 7,500 acres), but some farms in the grain-growing districts have under cultivation from 10,000 to 20,000 hectares (25,000 to 50,000 acres). All laborious work is mechanized, and over 90% of the crops are cultivated by machines, which, together with their crews, are supplied by the State Machine Tractor Stations. The MTS are paid by the Collective Farms in kind, at rates specified in the contract. The Collective Farms are equipped with modern implements, and apply the latest agronomic methods on a wide scale. Each Collective Farm has a Charter, or constitution, which defines its organizational structure, the responsibilities of members, and similar important matters.

The Collective Farm's land is an aggregate area to be used for the profit of the Collective Farm as its needs dictate. The land itself belongs to the State, but the Collective Farm has the right to permanent use—a right confirmed by the government certificate, that also indicates the boundaries of this area. This land may not be sold, bought, or leased. Each peasant family belonging to the Collective Farm has the right to a garden plot, varying in size in different areas from 1/4 to 1 hectare (1 hectare : 2½ acres) which the members of the peasant family may cultivate as they see fit. The Collective Farm owns all means of production, save large machinery required to operate its enterprise. The means include cattle, simple implements, farm buildings, flour mills and other initial processing equipment, seed fodder, and the like. The

Collective Farmer may use privately (i.e. own) their dwelling houses, garden tools, and private livestock.

The annual production and income of a Collective Farm are disposed of in a rather complicated fashion. The State has first claim upon production, and receives the large share of all crop and livestock products. Most of the State's share is obtained in three ways. The first is the tax in kind, levied on all farm production. Second, the State receives another significant fraction of crop production as payment for the services performed by the equipment of MTS. Third, and relatively minor, are the repayments each year of seed loans and other borrowings in kind from the State. After the government's demands have been met, various portions of the farm's production are reserved for seed, for fodder, for reserves against crop failure, and for funds for special purposes—such as that for subsistence of those unable to work—e.g. invalids, aged, and others.

The remaining production of the Farm is divided into two parts. One part is sold, either to the government, to co-operative organizations, or on the open market. It is from these sales that the Farm usually receives the bulk of its monetary income. The prices received are highest on the free markets, where sales are made directly to consumers. The rest of the farm production is distributed among members as payment in kind. The monetary income of the Collective Farm is divided in rather similar fashion. The State income-tax on Collective Farm has the first claim upon this income. Money must be used also to pay for insurance on the property of the Collective Farm. Between 10% and 15% of the money income must be set aside for inclusion in the 'Indivisible Fund'—i.e. the capital fund of the Collective Farm, which is used to finance capital construction and repair on the Farm. The remaining monetary income is divided among Collective Farmers in proportion to the number of 'workdays' earned.

In 1938, the Collective Farms had almost 90% of the sown area of the U.S.S.R. and accounted for 85% of all gross agricutlural production. In early 1950, there were 254,000 Collective Farms. This figure represented an increase of 32,000 over the number reported in April 1947, and was attributable mainly to the collectivization of peasant farms that took place, during 1948 and 1949, in the Baltic States, Eastern Poland, Carpatho-Ukraine, and other areas annexed by the U.S.S.R. since 1939.

2. State Farms

State Farms are large-scale agricultural establishments owned and operated by the State. They are an important source of supply of agricultural produce—grain, industrial crops, and animal products—in the Soviet Union. There are over 4500 State Farms in the U.S.S.R.: among them grain, livestock-breeding, fruit-growing, tea-growing, citrus-growing, and other farms. A distinguishing feature of the State Farm is that they are not narrowly specialized, but integrated and many-sided in their husbandries. Thus, a State grain-growing farm also has considerable numbers of livestock, while livestock farms do a good deal of arable farming. All laborious field work on these farms is carried on by tractor-drawn machines, and most of their crops are harvested by combines. Extensive mechanization and scientific farming have led to unprecedented growth in the State Farms' gross, and marketable, output.

In 1938, almost 4,000 State Farms had 12,400,000 hectares under cultivation—i.e. roughly 10% of the sown area in the U.S.S.R. Their importance to the State is indicated by the fact that, in 1937, State Farm deliveries accounted for 30% of the milk, over 25% of the wool, and 24% of the meat, obtained by the State from all Soviet agriculture. They supplied smaller percentages of the government's supply of grain, sugar beet, and cotton as well. The World War II dealt them a serious blow, however, reducing their supply of machinery, their sown area, and their livestock herds. After the annexation of Eastern Poland and other Western areas after 1938, however, State Farms were formed there. By 1949, there were about 5,000 State Farms in the U.S.S.R. Their acreage may have been well above the 12,400,000 hectares of the late 1930's.

3. Machine Tractor Stations

The Machine Tractor Stations are State establishments and work closely in conjunction with the Collective Farms in the production of most Russian agricultural output. These stations own most of the tractors, combines, and other complex agricultural machinery used on agricultural farms. The use of these machines on the Collective Farm is governed by a contract signed between the Collective Farm and the MTS. These contracts provide for the types of work to be done by the machinery, the time at which each operation is to be performed, qualitative indices to be maintained, and the payment to be made for the rental of the machinery. The MTS are paid by the Collective Farms in kind, at rates specified in the contracts. In the 1930's, the MTS were paid between 10% and 20% of the grain crop on land ploughed, seeded, cultivated, and harvested, depending upon the size of the crop.

The job of MTS does not end with the cultivation of the land by machinery. It includes also the promotion of high standards of farming, thus helping the peasants to consolidate and develop their Collective Farms. Guided by MTS agronomists, the farmers introduce ley crop rotation, plant shelter belts, build ponds and reservoirs, and carry out many other measures. The MTS also trains tractor drivers and operators for other farm machinery from among the Collective Farmers. In early 1950, there were about 8100 MTS. Before the amalgamation of small farms into large ones in 1950, each MTS on the average took care of about 30 Collective Farms. The role of the MTS in Soviet farming is increasing all the time. By 1952, over 2/3 of the work done on Collective Farm was carried out by the MTS. MTS have thus made the peasants' work easier, and increased its productivity. Farm work in the U.S.S.R. is more and more becoming a variety of industrial labour.

INDUSTRIAL CONTROL

Industrial production in Soviet Russia is carried on mainly by two types of enterprises—those owned by the State, and industrial co-operatives. The State-owned and-operated industry of the U.S.S.R. is the largest single centrally directed productive apparatus in the world. It is composed of thousands of factories and mines of every description, spread throughout the vast territory of the Soviet Union. Well over 20 million persons are employed in these enterprises, where overwhelming bulk of all industrial commodities is produced. Co-operative production is significant only in the output of consumer goods.

In the early years of Soviet regime, virtually all industry was directed by one central body—the Supreme Economic Council. During the 1930's, this Council was broken down successively into a large number of individual Ministries. Since World War II, however, the trend has been toward greater consolidation: a number of new Ministries have been formed by consolidating several old ones. In 1950, 27 such 'all-union' economic Ministries functioned—e.g. Heavy Machine Construction, Machine Tool Construction, Chemical Industry, Petroleum Industry, Electrical Industry, Coal Industry, Automobile and Tractor Industry, Food and Material Reserve, Labour Reserve, Foreign Trade, Transportation, Sea Fleet, Aviation, Communication, and so on.

In addition to these all-union economic Ministries, there are several 'union-republican' Ministries, which have a dual organization—i.e. they consist of an over-all union Ministry in each case, under which republican Ministries organized in each of the different republics of Soviet Union. In June 1950, 14 such union-republican Ministries existed—e.g. Construction Material, Light Industry, Forestry, Food Industry, Agriculture, State Farms, Trade, Finance, and so on.

All-Union Industry

Soviet State industry is controlled and directed by the highest body of the government—the Council of Ministers. The members of this Council are the Ministers who head each major section of the Soviet government. This Council supervises the over-all work of Soviet industry, and issues such orders as are required from time to time to improve the work being accomplished. This body also approves the annual and economic plans, directing the operations of Soviet industry during each period of time. The every-day, detailed operation of Soviet industry is organized and supervised by individual Ministries, each directing a major segment of production.

There are three types of sub-divisions below the Ministerial level. The first is the 'Chief Administration' (Glavk, plural Glavki). Chief Administration is a sort of sub-Ministry, controlling plants in a given area, producing a given type or types of products, as the case may be. Under the

Chief Administration, there may be either a 'Trust' or a 'Combine'. Each of these is usually a group of plants combined in one administrative organization. Typically, a Combine consists of a group of related plants and other enterprises producing one or a group of related products. Thus, the 'Magnitogorsk Combine' is in charge of iron mines, steel mills, and coke chemical plants in and near the city of Magnitogorsk.

The ultimate Soviet production unit, from the administrative point of view, is the 'Enterprise' which may be a Trust, or a Combine, or simply an individual factory. It operates on the basis of a separate Charter, registered with the government, and approved by the appropriate Ministry or by the Council of Ministers. The Enterprise is headed by a 'Director' who has full powers of administration and control over it, with the limit set by higher authority. The Enterprise has certain fixed capital—e.g. buildings, machinery, and so on, conferred upon it by the government : as well as its supply of working capital in the form of raw materials, and of money in the bank, also received originally from the State. The State Treasury is legally free from any liability for an Enterprise's debts, though these enterprises are State-owned and-operated.

Local Industry

The above discussion related to all-union industry. Other types of Soviet industry are organized on a republican or local basis. Republican industry includes primarily industries producing consumer goods, food, and construction materials. Soviet local industry consists of small enterprises in particular localities, serving the needs of consumers in that region by processing raw materials obtainable there. Thus, a small coal deposit may be worked by a unit of local industry to supply the needs of a nearby town. There is a 'Minister of Local Industry' in each union republic (but none at the national level) who supervises the operation of these many small enterprises in his own area. These subordinate industrial enterprises produce about 10% of all output of State industry.

Industrial Co-operatives

Industrial co-operatives consist of artisans and handicraft workers, and produce a variety of consumer goods—e.g. furniture, kitchen equipment, boots and shoes, barrels and baskets, textiles, toys, leather goods, artistic wood and iron work, pottery, and similar goods—are their chief products. A Soviet citizen may join and work in an industrial co-operative by paying admission dues and buying a share of the enterprise. These dues and share payments go into the capital fund, used to provide the fixed and working capital of the organization. They can receive short-and long-term loans from the government to finance their activities. The co-operative is governed by a Charter that defines its activities and organization.

These co-operatives operate in a fashion generally similar to that of the State-owned industrial plants. Their work is governed by the master plan drawn up for the nation as a whole by the State Planning Committee. Administratively, these co-operatives are under the special 'Chief Administration of Producers and Consumers Co-operatives', attached to the Council of Ministers. In the different republics and provinces, the co-operatives of each local area are subordinate to the central authorities of that area. Though their organizational form differs from that of State-owned industrial enterprises, the industrial co-operatives are completely under the control of the State. They operate only in accord with the directives of the State.

FOREIGN TRADE POLICY

Soviet foreign trade is organized and conducted as a State monopoly since April 23, 1918, and is directed by the Ministry of Foreign Trade. Foreign trade between the U.S.S.R. and the countries with which it does business is governed by trade treaties and agreements covering the volume of trade and payments. These agreements list the items with which two parties have agreed to supply to one another, specifying quantity and price. No direct payments are made by either side for the commodities supplied by the other: but, at the end of stipulated periods, all accounts are settled by clearing operations. With most countries, imports and exports of equivalent value are provided for. The Soviet organs representing the interests and rights of the U.S.S.R. in the sphere of foreign trade abroad are the Trade Commissions. These Commissions, which form part of the Soviet Embassy, negotiate contracts, and make market research and surveys on behalf of the Soviet foreign trade organs.

The actual foreign trade operations are transacted by special export and import corporations. The commodities in which they may deal are strictly defined by their Charters. (For instance, 'Promsyryeimport' imports industrial raw materials—such as metals, rubber, textile materials, and manufactures of these products: while 'Tekhnoeksport' exports machinery of all kinds, metals and metal articles). In 1947, there were 23 such corporations, each of which handles the export and import of specific commodities. These corporations conduct their operations by concluding contracts with foreign firms or associations. They are vested with authority to make transactions independently, and have been given independent responsibility for their undertakings. The State is not responsible for debts contracted by these corporations, nor are these corporations responsible for the State debts, or for debts or commitments of any other economic corporations, including other foreign trade corporations.

Revolution to World War II

The development of Soviet foreign trade between the Bolshevik Revolution of 1917 and the outbreak of World War II in 1939, followed roughly a normal curve. Starting off from the negligible levels of the first post-revolutionary years, the volume of trade steadily increased until the early 1930's imports playing a major role in accelerating the industrialization of country. Gradually, as the Soviet Union found it possible to produce more and more goods formerly imported, the volume of imports, and consequently of exports to pay for them, fell off after the early 1930's up to 1938. At no time, in the 1920's and 1930's, was Soviet trade large in comparison with the country's population and resources. Its maximum share of world imports, before World War II, was 2.7% in 1931, while the corresponding maximum for exports was 2.3% in 1932. These percentages were on a par with those recorded for relatively small countries like Switzerland and Sweden, having populations well under 5% of that of Soviet Union.

As strictly programmed by the government, Soviet imports throughout these years were overwhelmingly composed of production goods. Machinery of all kinds, iron and steel goods, non-ferrous metals and products, and electrical equipment made up well over half of all Soviet imports, in the early 1930's. In later years of the 1930's, imports of these commodities continued to be most important, but the absolute volume of imports decreased, as Soviet factories turned out more and more machines and other goods formerly imported from abroad. From 1925 to 1938, roughly 2/3 of Soviet exports consisted of usually industrial raw materials: remaining 1/3 consisted of agricultural products. Most important items of Soviet exports were timber, lumber mill products, grain, petroleum and products, flax and flax products, manganese ore, and coal. A really remarkable development, in the middle and later 1930's, was the increase of Soviet exports of machinery, iron and steel products, cotton, and some other products, for which the U.S.S.R. had formerly been greatly, or almost entirely, dependent on foreign imports, and which had been formerly exported in small quantities, or not at all.

From the middle of 1920's to 1938, the Soviet Union had a favourable balance of trade, every year, with most Western countries except Germany, where major unfavourable balances were frequently the rule. The Soviet Union bought more from the U.S.A. than it sold there in almost every one of these years. The U.S.S.R. usually had an excess of imports over exports, during this period, with Czechoslovakia, Poland, the Scandinavian Countries, and Iran, though only Iran among them usually accounted for more than 1% or 2% of the U.S.S.R's export or import trade.

World War II

World War II resulted in a profound transformation of the Soviet foreign trade pattern. While commodity imports, in 1943, increased almost 6-fold (1,446 million Rubles to 8,460 million Rubles between 1940-43), commodity exports fell to almost 1/4 of 1940 level (1,412 million Rubles to 373 million Rubles between 1940-43). This remarkable transformation was the consequence of German invasion of U.S.S.R. in June 1941. German forces occupied many of the richest agricultural and industrial areas in the U.S.S.R. west of Moscow, reducing sharply the economic resources available to the

Soviet government, and making normal economic life impossible. To meet the desperate Soviet need for immediate outside aid, the American Lend-Lease, and the British and Canadian Mutual Aid programmes were set up, under which the U.S.S.R. received tremendous amounts of commodities of all kinds on generous credit terms. Almost $ 13,000 million worth of goods were sent to the U.S.S.R. by three major Western allies, during World War II, of which about $ 11,200 million went from the U.S.A.

Recent Trends

The main objective of Soviet foreign trade policy in the postwar years seems to shape and consolidate all its satellite nations into a closely knit economic group that would be maximally independent of the outside world, but maximally dependent upon the Soviet Union. This may be judged from the following statistics: In 1949, 2/3 of the total foreign trade of U.S.S.R. was accounted for by these satellite nations. Before World War II, these nations probably accounted for only 10% or less of Soviet trade. Western Europe, the U.S., and other countries, which accounted for 90% or more of Soviet trade in 1940, accounted for only 1/3 of it in 1949.

The nature of Soviet trade with the different Eastern European countries varies, depending upon the economy of each country. Thus, Czechoslovakia, a relatively highly developed industrial country, sends the U.S.S.R. a great deal of machinery and consumer goods—particularly textiles and shoes. Bulgaria sends the U.S.S.R. tobacco, cement, rose oil, and other products of its predominantly agricultural economy. Rumanian oil and Polish coal are important exports for those countries. In return, the U.S.S.R. sends primarily industrial raw materials—such as ferrous and nonferrous metals, petroleum, cotton, and some ores. In addition, the U.S.S.R. has been sending some industrial machinery and equipment—including token quantities of trucks, tractors, and other farm machinery, a few selected and much publicized tools, metallurgical equipment, and the like.

A unique characteristic of Soviet trade unionism is the intense interest it takes in increasing the productivity of the nation's industry, in its persistent desire to reduce costs, and in its inclusion within its own membership of the directors and managers who have taken the place of capitalist employers. Linked with this is an organizational feature. The fact that the frontiers of a trade union are coterminous with the industry in which its members work: That it includes, within the same union, all crafts and grades within industry from unskilled to technical and managerial personnel: And that its unit of organization, instead of being the geographical branch, is the factory or place of work, with the 'Factory Committee' combining the roles of Branch Committee and Shop Steward's Committee, and, the workers' side, of a Joint Production Committee, in Britain.

Soviet trade union, like its British counterpart, is based on optional membership and subscription. Trade union membership cannot legally be made a condition of employment: but trade unions can, and do, insert a 'preference in employment' condition in their agreements. Trade union members, however, enjoy several privileges over non-members—e.g. right to receive greater social insurance payments, free legal aid, preference in admission to rest homes and sanatoria, and the like. New members pay an initiation fee of 1% of their wage, and then monthly dues equal to 1% of their net monthly wage. A trade union is only entitled to legal recognition as such, if it is accepted for affiliation to the supreme organization of labour in the Soviet Union—the 'All-Union Trade Union Congress'—a body which (like the American Federation of Labour, but unlike the British Trade Union Congress) has the power to take decisions, which are binding on the organizations affiliated to it (e.g. on questions concerning demarcation and wage policy).

Functions: The statutes and by-laws of Soviet trade unions set down nine categories of functions for these organizations:

1. Organize socialist competition of workers and employees for fulfilling and overfulfilling State plans, increasing

the productivity of labour, improving the quality and lowering the cost of production.

2. Appear, in the name of workers and employees, before State and social agencies on problems of labour, living conditions, and culture.

3. Participate in planning and regulating wages of workers and employees, in devising a system of wages guided by the socialist principle of pay according to amount and quality of labour.

4. Conclude collective agreements with the administration of enterprises.

5. Help workers and employees to raise their production and business qualifications. Spread the work-experience of leading workers and employees, the innovators in production and science, and assist in introducing progressive techniques in industry.

6. Carry out control over the condition of labour safeguards and safety techniques in enterprises and institutions: Participate in settling labour disputes.

7. Draw women into State, industrial, and social, life. Help workers and employees in the communist education of children.

8. Direct State social insurance, determine and issue relief payments to workers and employees for temporary disability, strive for better organization of medical aid for workers and for safeguarding the health of women and children, build sanatoriums and rest homes, organize mutual loan societies, participate in allocating living space in housing belonging to enterprises and institutions, exercise mass control over fulfilment of plans for housing and cultural construction, the work of restaurants, shops, municipal welfare enterprises and transport.

9. Help members of trade unions to raise their ideological-political and general-educational standards, spread political and scientific knowledge, conduct widespread production-technical propaganda, form clubs, houses and palaces of culture, Red Corners and libraries, and develop among the workers and employees mass amateur art participation, physical culture, sports and touring.

Collective Agreements: The 'collective agreement' in Soviet Union is a contract between the management and the personnel of a given enterprise—factory, mill, mine, State Farm, and so on—by which both sides undertake certain commitments. The agreement stipulates working conditions for the particular enterprise for a period of one year. It is signed by the management and local Trade Union Committee. Under the agreement, the management undertakes to introduce new and more efficient machines and methods, to improve industrial safety, to train new workers, to help workers to build their own homes, to extend creche and kindergarten facilities for the workers' children, to put up residential buildings, and so on. The local Trade Union Committee, for its part, undertakes, on behalf of the workers, to increase labour productivity. Collective agreements also stipulate the manner in which wages and salaries are to be paid, and lay down scientifically-established work standards and rates.

Labour Legislation: A special Code of Labour Laws regulates all major questions relating to work:

(a) The maximum working day is 8 hours. For work underground or heavy jobs, it is 6 to 7 hours. For dangerous occupations, it is 4 hours.

(b) Overtime is permitted only in exceptional cases, and on each occasion special permission must be obtained from the Central Committee of the appropriate trade union. Overtime pay is time-and-a-half, or double the regular rate.

(c) Child labour is prohibited. Minors under 16 are not allowed to work in industry. For apprentices, whose training lasts from the age of 14 to 16, the working day is limited to 6 hours—whether they are being trained individually or in groups. They receive a full day's pay.

(d) Employment of women and juveniles in heavy or dangerous occupations is prohibited. Pregnant women and nursing mothers may not be employed on overtime.

During the Fourth Five Year Plan period, from 1946 to 1950, the Soviet government spent more than 4,500 million Rubles on industrial safety measures. Labour Inspectors, appointed by the trade unions and working under their instructions, watch to see that labour legislation and safety rules are strictly observed.

Labour Disputes: In Soviet Russia, a worker and manager do not belong to opposite classes. They are both workers of the socialist economy. Labour disputes are settled either by 'Grievance Committees' or by the 'People's Courts.' The Grievance Committees are special conciliation bodies established at all industrial enterprises, offices, and institutions, and work under the Trade Union Committees. They are composed of an equal number of representatives of the management and the Trade Union Committee. A worker, engineer, or technician with a grievance—whether it concerns the wage rate paid to him, or dismissal from his job, or transfer to another job, or similar other matter—sends his complaint to the Grievance Committee. The complaint must be examined, and a decision handed down, within 3 days. In the examination of a grievance by the Committee, the trade union and management representatives enjoy equal rights. No decision is valid unless it is agreed to by both sides. A Grievance Committee's decision may be reversed by a Prosecutor or a higher trade union body, but only if the decision arrived at is in violation of the law, or is strictly at variance with the facts of the case. If a worker considers the decision unjust, he has the right to bring the matter before a People's Court. In all such cases, the complainants are exempt from the payment of court fees.

Membership: In January 1918, Soviet trade unions had 2,532,000 members. This number increased to 11 million by 1928, before the inauguration of the First Five Year Plan. The rapid industrialization of the country, under three national economic plans, was reflected in the growth of union membership, which increased to 25 million by 1939, out of more than 30 million wage earners. In 1947, there were 27 million members: but membership rose to 28½ million by 1949. At present, there are 66 industrial trade unions in the Soviet Union.

Wage rates, working hours, and working conditions are determined by law, and are not, therefore, subject to dispute. Strike as a means of settling labour disputes is unknown, though not illegal, in the Soviet Union. Along with collectivization of agriculture, the subjugation of the labour unions and the application of coercive restrictions upon workers' liberties have been most important factors in the economic development of the U.S.S.R. since the late 1920's.

SOCIAL INSURANCE SYSTEM

Soviet social insurance system is a system of unlimited and universal security to the entire wage-earning population. This provision of economic security has been an important factor in making each workman conscious not only of his Soviet citizenship, but also his joint ownership with his fellows of the whole of the means of production. It covers all employed persons, irrespective whether the undertakings, institutions, or businesses in which they are employed, are State, public, co-operative, established under a concession or lease, of mixed character, or private, or whether they are employed by private individuals, and irrespective also of the nature and duration of their employment and method of remuneration.

In administering the complex system of social insurance, the trade unions act as agents of the government, and distribute funds from the State Budget, appropriated for this purpose. Trade unions took over this function in the early 1930's, when the People's Commissariat of Labour was abolished. The social insurance of factory or office workers is financed completely by the State. The 'State Social Insurance Fund' is made up of money paid regularly by all enterprises and institutions for this purpose—the equivalent of about 7% of the wage-bill. The workers make no payment to this Fund.

Benefits

Benefits paid out of the Social Insurance Fund are many and varied. They include temporary disability benefits, allowances on the birth of a child, lump sum payments to workers with large families, accomodation at health and holiday resorts, maintenance of tourist and mountaineering camps, the cost of sending workers' children to summer camps, and children's sanatoria. During illness, a worker receives sickness benefit from the first day of his disability until his doctor permits him to go back to work. A worker is also paid out of this Fund, if he or she has to stay at home to take care of a sick member of family. Working women receive maternity leave allowances, if she has worked at a given enterprise or institution for not less than 3 months. The benefits range from ½ to the whole of the worker's earnings, depending on the length of service at the enterprise. On the birth of a child, a lump sum is paid as a special allowance for feeding the baby and for purchase of a layette. Disability pensions range from 1/3 to the full amount of a worker's wages, depending on the degree of incapacity.

Soviet citizens are maintained in their old age by the State. Under Soviet law, upon reaching the age of 60, male members who have a 25-year record, receive life pensions. Women receive this pension on reaching the age of 55, after 20 years of service. Some categories of workers—notably miners, and iron and steel workers—receive their pensions on reaching the age of 60. Old age pensions are paid even if the pensioner is in perfect health and able to work. Persons receiving such pensions may continue to work if they so desire, being paid their full pension just the same. Old age pensions range from 60% to 70% of the pensioner's average monthly earnings. Collective Farms provide special funds to aid aged Collective Farmers.

Unique Features

1. Soviet Social Insurance System is a 'non-contributory' scheme. The whole charge is borne either by the State Budget or local Budgets, or by the entrepreneurs themselves in proportion to the numbers they employ. Workers make no payment to the State Social Insurance Fund.

2. It is an 'all-in scheme' of insurance, covering all the main risks of human life that result in loss of earning power or exceptional expenditure : and the major part of the benefits is administered by a single agency.

3. All employed persons, salary earners, wage earners, agricultural wage earners, domestic workers, as well as industrial workers are included in the scheme, irrespective of their income.

4. Benefits payable to trade union members are in most cases more than those payable to non-trade union members.

5. Unemployment benefit, which bulks so prominently in the social insurance schemes of major capitalist countries, is no longer included.

6. Social security is the 'Constitutional right' conferred upon all Soviet citizens.

In the First Five Year Plan period (1928-32), the Social Insurance Funds amounted to 10,400 million Rubles. In the Second Five Year Plan period (1933-37), they reached 32,500 million Rubles. In the postwar Fourth Five Year Plan period (1946-50), they amounted to 80,100 million Rubles.

TRANSPORTATION

The development of transportation in Soviet Russia went parallel to the growth of industrialization. Three years of World War I, civil war, and foreign intervention had very adverse effects on Russian transport facilities. Railways and other means of transport, however, rapidly recovered during the 1920's, but after 1920's they had to cope with the great burdens created by the gigantic construction and production programmes of the first three five year plans. Railroad transport, for more than two decades, provides the great bulk of freight carriage—usually 75% or more of the total, river transport less than 15%, maritime transport less than 10%, and trucks less than 5%.

1. Railroad Transport

The efforts of the Soviet government, in the initial years of its regime, were directed toward restoring the extensive sections of track and the large portions of rail equipment, damaged and made unusable during the years of civil war and foreign intervention: and also toward completing many of the rail lines, projected during Czarist times, but had yet remained uncompleted.

In the course of the First Five Year Plan, the Soviet government treated transport system less generously than heavy industry, by minimizing the allocations of new resources to railroads, and by sharply intensifying the use of existing equipment. Consequently, between 1928-33, the total length of main track grew only by about 7%, but the volume of traffic increased 82%, and the volume of passenger traffic more than tripled. This naturally resulted in the piling up of tremendous backlogs of freight awaiting shipment. When this policy threatened to paralyze the whole economy, the government took energetic steps in mid-1930's—i.e. in the course of Second Five Year Plan—to encounter the peril. The quantity of steel, labour, and other resources allocated to the railroad system was sharply increased. By 1937, however, as the situation had sufficiently improved, the allocations of key resources were soon reduced.

During World War II, much of the railroad trackage in the Western U.S.S.R. was destroyed or damaged as a result of combat and of deliberate destruction. Nevertheless, by following a policy of giving first priority to the restoration of railroads in re-occupied territories, the total length of trackage, at the end of 1945, exceeded that of 1940. In the postwar years, the Soviet rail system rapidly reovered in terms of the volume of freight carried: e.g. the total freight carried, which reached 415 billion ton-kilometers in 1940, grew from 314 billion ton-kilometers in 1945, to about 525 billion ton kilometers in 1949—thus exceeding the 1940 level.

2. Automobile Transport

In Soviet Russia, motor vehicles for the use of passengers and freight transportation plays a relatively far less important part, compared with the U.S.A. or Western Europe. This is because it has a proportionately less number of cars, buses, and trucks when compared to its population and the size of its territory, as well as of the relatively primitive and underdeveloped road network available. Long distance movement of passengers and freight by motor vehicles is of negligible importance. Nevertheless, substantial progress has been made in developing this area of transportation, since the Bolshevik Revolution. At the end of 1937, there were about 760,000 motor vehicles in the U.S.S.R. (the great majority of them trucks), as compared with about 9,000 in the Russia of 1914, and the 19,000 in the U.S.S.R. at the start of the First Five Year Plan.

During World War II, many motor vehicles were lost to the enemy or destroyed in combat: but the U.S.S.R. received some 300,000 trucks of all kinds from the U.S.A. At the end of the war, Soviet troops confiscated large numbers of cars in Eastern Europe and other areas they occupied, and brought many of them back. These factors, plus the recovery of domestic production of motor vehicles in postwar years, suggest that by 1950 the U.S.S.R. had well over 1,000,000 cars, buses, and trucks in operation—the highest number in its history.

3. Maritime Transport

Though the Soviet Union is fortunate in having a long coast-line in the North, East, and South, it has never been a major maritime power. This is due to two reasons. Many of the country's maritime ports are frozen from 3 to 9 months each year. Moreover, much of the Northern and Eastern coast is far distant from any large concentration of population requiring transport service. However, the desire to become a significant maritime power has been a significant force in Soviet transport development, and the opportunities to achieve this goal have become brightest in the past decade with the acquisition of the key Baltic ports of prewar East Prussia and the former independent Baltic States.

The acquisition of ships from former enemy States has aided U.S.S.R.'s maritime fleet in the postwar period. Much of its merchant marine freight-carrying capacity, during the past decade, has been provided by American vessels borrowed during World War II. By January 1, 1949, U.S.S.R. had 423 sea-going ships of 1,788,000 deadweight tons, little more than the prewar figure of 1,600,000 deadweight tons.

4. Air Transport

Air movement of passengers, mail, and freight has grown rapidly in the U.S.S.R. since the late 1920's, owing to the speed with which the great distances between major cities of Europe and Asiatic parts of the country can be covered in comparison with train or other surface transportation. Moreover, many of its important areas are yet not connected by rail or by good roads with the rest of the country. For these relatively isolated regions, air transport provides a important means of communication without the necessity of investing large sums in building railroads or hard-surfaced automobile roads—investments that are as yet unjustified by the volume of passenger and freight traffic to and from these areas. The length of route covered by Soviet air lines grew from 18,500 kilometers in 1929, to about 140,000 kilometers in 1939.

In addition to purely domestic air routes, Soviet air lines in the postwar period maintain routes to the capitals of many of the border countries in Eastern Europe and Asia. In 1950, Soviet planes made regular flights to Poland, Czechoslovakia, Hungary, Rumania, Bulgaria, Finland, Austria, Afghanistan, China, Mongolia, and Korea.

FEATURES OF SOVIET ECONOMY

1. **Socialized Economy:** In the U.S.S.R. there is no private ownership of the instruments and means of production. ' The land and its deposits, waters, forests, mills, factories, mines, railways, water and air transport, banks, means of communications, large State-owned farm enterprises (State Farms, Machine Tractor Stations, and so on), and also the basic housing facilities in cities and industrial localities, are State property—i.e. the wealth of the whole nation.

2. **Predominance of Co-operatives:** The only owners or operators, other than the State, of significant amounts of means of production are co-operatives—organizations that are completely under the State's domination, with little freedom of action. Such co-operatives are most important in agriculture, where, in the form of Collective Farms, they produce most Soviet farm produce of land belonging to the State. Industrial producers' cooperatives, including cooperatives of invalids, exist in towns and cities throughout the country, and are significant mainly as producers of consumer goods, or suppliers of miscellaneous services. Co-operative consumers' organizations dominate wholesale and retail trade in the country-side. State property and co-operative property are legally considered merely different forms of socialist property.

3. **Protection to Personal Property:** The personal property right of citizens in their incomes and savings from work, in their dwelling houses and subsidiary home enterprises, in articles of domestic economy and use, and articles of personal use and convenience, as well as the right of citizens to inherit personal property, is protected by law.

4. **Planned and Co-ordinated Economy:** Virtually all economic activity of the country is co-ordinated through the government Plan, which sets future production objectives for

all the major commodities, and directs the growth of economy with a view to attaining the objectives set up. The Plan fixes the amounts and kinds of goods each branch of economy is to produce at the end of each planned period, for the U.S.S.R. as a whole, and for each union republic separately. It lays down where and on what scale new construction work is to be undertaken, and the number of new workers to be trained, and in what trades and professions. The Plan determines the expansion of agricultural production, the increase in the number of livestock, the number and types of machines agriculture is to receive, and the volume of domestic trade. The Plan also provides for the rise in the material and cultural standards of Soviet people, the development of scientific and cultural institutions: and the buildings of schools, hospitals, clubs, and so on.

5. **Constitutional Right to Work:** All able-bodied citizens of the U.S.S.R. are required to work in accordance with the principle 'He who does not work, neither shall he eat'—i.e. no one may live solely on the basis of 'unearned income' (such as interest on government loans), but a wife may be supported by her husband. The Soviet Union to-day is legally regarded as being a socialist society, operating in accordance with the slogan 'From each according to his ability, to each according to his work'. An individual must work for a co-operative organization, or for the State. The employment of workers for the private profit of another individual is forbidden. At the same time, the citizens of the U.S.S.R. have the constitutional right to work—i.e. the right to guaranteed employment and payment for their work in accordance with its quantity and quality.

6. **Socialist Society:** Soviet society consists of two classes —workers and peasants. But they are new classes, which have nothing in common with those that existed in old Russia. Their role in society and in the State has changed. Their mode of life, their culture and morals have changed in many respects. This difference exists primarily because the workers are employed in establishments which are the possession of the whole people and are 'Socialist-State' in character, while the peasants work in Collective Farms which are 'socialist-cooperative' in character. Both of these classes are already classes of 'Socialist Society'.